THE COMPTROLLER & AUDITOR GENERAL OF INDIA

ANALYTICAL HISTORY

1947-1989

R.K. CHANDRASEKHARAN

Foreword
by
Shri. T.N. Chaturvedi
Comptroller and Auditor General of India

Excerpts from the foreword :

'Given the scope of the study, analysis and interpretation involved in bringing out the volumes of this nature and size, the author's efforts and achievements in such a short time span deserve to be highly commended.'

'Shri R.K. Chandrasekharan's suggestions for statutory changes and innovations in systems and procedures in IAAD contained in 'summing up' deserve consideration at appropriate levels. It could be of help to the Parliamentarians and the Public to support the desirable reforms to make this instrument of accountability still sharper and more effective.'

THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

ANALYTICAL HISTORY

1947-1989

(VOL. II)

THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

ANALYTICAL HISTORY
1947-1989
(VOL. II)

R. K. CHANDRASEKHARAN

Foreword : T. N. CHATURVEDI

ASHISH PUBLISHING HOUSE
8/81, Punjabi Bagh, New Delhi-110026

Published by :

S.B. Nangia
***for* Ashish Publishing House**
8/81, Punjabi Bagh
New Delhi-110026
Tele. 50 05 81
541 09 24

ISBN 81-7024-321-1 (For Set)
ISBN 81-7024-322-X (For Vol. I)
ISBN 81-7024-323-8 (For Vol. II)

Price Rs. 900.00 (For Vols. I & II)

First Edition : 1990

Laser Composing by :
Computer Codes
Virat Bhawan, Comml. Complex,
Mukherjee Nagar, Delhi - 110 009
Phone : 7111681

Printed at Efficient Offset Printers, New Delhi

Contents

Charts and Photographs

17 Receipt Audit

DEPARTMENTAL AUDIT OF RECEIPTS

In the early days of Indian administration, the audit of receipts received by the various departments was conducted by the departments themselves. Audit of receipts from the Post Office was conducted by the Comptroller, Customs, by the Collectorate under the Board of Revenue, Forest by the Conservators of Forests till 1876, and Public Works, Railways and Telegraph by the Accountant General, Public Works Department. Miscellaneous receipts, like leave and pension contribution of officers lent to foreign service, realisations by sale of stamps and opium, fines realised, convict charges recoverable from Indian states, miscellaneous demands not falling within the ordinary revenue administration, recoveries of over-payments, repayments of advances by Government servants and receipts of Debt and Remittance heads were audited by the Indian Audit Department on the basis of returns received with treasury accounts or submitted by departmental authorities. Customs revenue was entrusted to the Auditor General from 1913. In the case of other departmental receipts, the Accountant General's function was confined to reporting to the controlling authorities the amounts received and brought to account, to be compared with the departmental returns of demands and realisations.

As far back as 1913, Lord Crewe, the then Secretary of State, while approving the increased status and pay to the Auditor General, observed that "It may at any time hereafter be necessary to require him to take part in the audit of revenue as well as in that of expenditure, just as the corresponding officer in the United Kingdom may be required by the Treasury under 29 and 30 Victoria, Cap. 30, Section 33, to examine and audit the accounts of the Revenue Departments". Later, while approving the Auditor General's Rules, 1921, which made specific provisions for audit of receipts, the Secretary of State, Mr. Edwin Montagu, agreed entirely with Lord Crewe in regard to the extension of the field of audit to cover revenue as well, in addition to expenditure, but recognised that owing to practical considerations, such extension must be gradual and that as opportunities offered, the responsibilities of the Auditor General in this regard should be developed.

"The Public Accounts Committee* had considered as far back as 1925-26 the question of dealing with matters arising in connection with receipts, as also the question of systematic audit of receipts. They had

* Para 38 of PAC on accounts for 1923-24.

enquired of the then Auditor General, whether the introduction of a systematic test audit of receipts would not be well worth the cost involved, and whether the revenues of the country would not improve considerably by reasons of the existence of some audit supervision. The then Auditor General replied that his answer was "emphatically in the affirmative" but there were various difficulties to be faced and the expert audit machinery required for the undertaking of a real audit of receipts did not exist and that a period of about five years would be required for the necessary staff to be recruited and trained". Whenever large embezzlements in the accounts of a specific institution were disclosed, the Public Accounts Committee recommended$ that the Auditor General should be asked to audit the receipts of that institution.

AUDIT OF CUSTOMS REVENUE

The audit of accounts of Calcutta Customs House started in the Office of the Board of Revenue, Calcutta in 1895. A scheme to set-up an audit branch under the control of the Collector in each Customs House was introduced in 1909. In 1911, at each Customs House the executive audit was conducted by the clerical staff working under an Assistant Collector of Customs to ensure, that duties were properly levied and paid in respect of dutiable goods and continuous audit of the accounts of the Customs House conducted by trained Accountants working under the Assistant Collector in charge of the Treasury to ensure, that the Customs duty paid was credited to Government and refunds and draw-back, etc. were made in accordance with the prescribed rules and proper accounts were kept of both receipts and payments. An Auditor of Customs Accounts in India was appointed in 1913, who was later known as Examiner, Customs Accounts, whose reports were submitted to the local Government concerned for final action. Audit of customs revenue was entrusted to the Auditor General from 1st May, 1924 under Rule 12 of the Auditor General's Rules, 1921, issued under the Government of India Act, 1919. The efficiency and suitability of the arrangement for safeguarding the customs revenue were raised in para 61 of the proceedings of the PAC relating to the accounts of 1928-29, which was examined by an A.G. on special duty and based on his report, a decentralised financial test audit under the supervision of Maritime Accountants General was adopted. The audit of each Customs House was entrusted to the Maritime Accountants General, in whose jurisdiction the Customs House was located, and the A.G.C.R. was appointed the co-ordinating Principal Auditor in regard to procedure

$ Para 20 of PAC on the accounts of 1925-26.

and practice in all Customs Houses and for the presentation of the results of Customs Revenue Audit vis-a-vis Government and vis-a-vis the PAC, who ensured certain amount of uniformity of practice and procedure in the various Customs Houses. Resident Audit units were set up at the Customs Ports, which were manned by a separate cadre of SAS accountants and UDCs, distinct from the regular cadre in the Civil Audit and Accounts Offices, which were administered by the AGCR.

While defining the scope and functions of audit at the time of decentralisation of customs audit in 1931, the Auditor General* made it very clear that Audit Department was not responsible for safeguarding the Customs Revenue, which was the responsibility of the Customs Department and the Audit Department was purely ancillary, not to the Customs Department but to the Government and was responsible for audit alone. To reinforce his view, he quoted Sir Malcolm Ramsay, the Comptroller and Auditor General of U.K., who was of definite opinion that specialisation of audit staff and audit function should be avoided and such specialisation should be given up, where it already existed, as both unsound in general principle and also the cause of extravagance and the Government of India had accepted this view without question. Specialised audit, if it involved the employment of specialist officers of the rank of a Principal Auditor and audit on a grand scale, was for very good reasons not the accepted policy. Specialised knowledge of customs law and administration, etc., should reside mainly within the Customs Department, in both the executive and internal check branches, which was its proper place and the officers of the Audit Department should specialise in audit. The practice in the United Kingdom was in conformity with the view that the Audit Department should exercise some independent and extraneous checks over the receipt side of the accounts, but that the part played by audit in safeguarding of revenue should be small, and the part played by the Revenue Department should be by far the more onerous and responsible. If the results of audit in any case were to prove that there was any deficiency in accounting or internal check arrangements, the correct course would then be not to multiply audit, but to put the accounts and internal check arrangements right. The contrary course could only lead to duplication and in the misplacement of responsibility - as in the nature of things, internal check cannot disappear altogether. The PAC** endorsed the views of the Auditor General and the system in force. Strangely, an entirely opposite view was held by the CAG three decades later in tune with the changing times.

* Sir Ernest Burdon.

** Para 23 of the proceedings of PAC - Part II, Civil Accounts for 1937-38.

CUSTOM

The audit of the receipts of Custom Houses and of the Collectorates of Land Customs at Calcutta, Shillong and Delhi were limited to receipts under the Sea and Land Customs Acts respectively and included all receipts of every description under each Act. Under Rule 63 of the Indian Aircraft Rules, 1920, all imports and exports were bound by the provisions of the Sea Customs Act, 1878. The receipts of the main Custom Houses at Calcutta, Bombay, Madras and Cochin and also of the Ports in Saurashtra and Kutch, as well as of the Outports of Bombay and Madras were subjected to scrutiny in statutory audit on the Sea Customs side. Receipts of airports under the Collectorates at Calcutta, Bombay, Madras, Delhi, Baroda and Shillong were also subjected to audit with the approval of the President. The functions of audit in the sphere of customs receipts were derived mainly from Articles 139 to 142 of the Audit Code and the Appendix I thereto (First Edition 1922). There were four Maritime Accountants General *viz.* West Bengal, Bombay, Madras and later on Kerala. The term 'Collectorate' generally referred to the Collector of Land Customs. Test check of Customs Revenue meant testing regulations rather than of testing the accounts as a whole. The test cases were taken and followed through to see that the regulations were observed.

In sanction audit, it was seen that the rules delegating any power or sanction were made by the competent authority, they were not in conflict with the provisions of any of the sections of the Act, under which they were made, and that the powers exercised under the rules were exercised by the officers named in the rules. All orders delegating powers to subordinate authorities were scrutinised to satisfy that the powers were capable of being delegated and have been duly delegated by the competent authority to whom they have been delegated. The Accountant General, Central Revenues, was responsible for the audit of all general sanctions, orders and interpretations issued by the Government of India and the Central Board of Revenues for corrective action. The Maritime Accountants General were responsible for audit of other sanctions, orders and interpretations of the Government of India and of the Central Board of Revenue *i.e.* those which were not communicated to all Collectors of Customs by those authorities. Tariff rulings issued by Collectors of Customs were scrutinised by the Maritime Accountants General, who raised points of doubt with the Collectors for taking up with the Central Board and also the Accountant General, Central Revenues. The Customs manuals were scrutinised in audit. The scope of audit under the Land Customs Act Procedure was prescribed. Audit was done in two parts, namely, day to day scrutiny of current documents in the Custom House involving a general review of all transactions and a detailed check of a percentage of them and audit of Ships' files, import and export of 'In-transit' documents concerning a rail or steamer passing through an intervening foreign territory. Each Maritime Accountant General was required to send to the Accountant General, Central Revenues, annually, by the 1st July, a report summarising briefly the important results of Customs Audit for the preceding financial year, together with a statement, whether the test examination of the receipts of Customs Revenue was carried out with satisfactory results. Cases in the reports were used for drafting paragraphs, where justified. The Accountant General, Central Revenues presented a selected statement of results of audit from the material thus provided in his Appropriation Accounts, to which was appended a report, based on the statements of the Principal Auditors, stating whether the test examination of the receipts of customs Revenue was carried out with satisfactory results. An exception was made in the case of paragraphs describing losses, which automatically appeared in the Appropriation Accounts. Description of losses was confined to facts, and was brief, and shown to Collectors for acceptance, before inclusion in the Annual Report. Any other paragraph selected by the Accountant General, Central Revenues from the report found special mention in the Appropriation Accounts and the Maritime Accountant General concerned obtained the acceptance of the Collector of Customs. Cases of infringements, if any, of the uniformity of practice and procedure at the various Custom Houses were taken up by the AGCR in consultation with the Maritime Accountants General and the Central Board of Revenue or the Government of India for necessary correction. The Maritime Accountants General concerned were required to regard themselves as financial adviser to the Collectors in the matter of Customs Revenue and to encourage Collectors to treat them as such. Limited powers were given to waive objections to the Accountant General, Deputy Accountant General and other officers.

A Customs Audit Manual was issued in two parts in 1938 for the use of the officers and staff engaged in Customs audit. Part I embodied thirteen chapters describing the rules, systems and procedures for audit of sea customs receipts, import duty, provisional duty procedure, assessment of goods imorted by Post, export duty, warehousing procedure, baggage drawback, refunds, audit of ship's files-import and export, writes-off of revenue, losses by fraud, abatements of revenue, audit of sanctions, audit of overtime fees and other miscellaneous matters.

In 1956, audit of the receipts at the Land Customs Collectorates at Calcutta and Shillong was entrusted to the Accountant General, West

Bengal and Delhi to the Accountant General, Central Revenues. In 1957, two posts of Assistant Accounts Officers were created, one each at Calcutta and Bombay and was filled by promotion from the SAS (CRA) Accountants cadre, who carried the usual scale of pay of Assistant Accounts Officers and was allowed a special pay of Rs.75 per month.

CONSTRAINTS ON REVENUE AUDIT

The audit of Revenue Receipts was conducted under the provisions of para 13(2) of Audit and Accounts Order, 1936, explained earlier. The Public Accounts Committee 1950-51 in their Report on the accounts of 1947-48 (Post-Partition) discussed the question of purpose and scope of audit of the accounts of the Indian Union, and also whether the Committee should require the CAG to give a report on the audit of Revenues and Receipts of the Indian Union and concluded that unless they examined the receipt side of the accounts of Indian Union, their examination of the accounts would not be complete. Again, in their Report of 1951-52, the Committee expressed concern over the delay in the compilation of Finance Accounts and observed that their work would not be complete until the findings of audit of the Revenue and Debt Heads were also available to them. Its aim, while examining the Finance and Revenue Accounts was to explore the various sources of revenue, how they should be developed and utilised.* No major initiative was taken for entrusting the audit of any receipts by the Executive Authorities to the Auditor General.

Although Article 151 of the Constitution of India stipulated that Reports of the Comptroller and Auditor General of India relating to the accounts of the Union and the States shall be submitted to the President or the Governor, as the case may be, who shall cause them to be laid before each House of Parliament or Legislature, the full implications of the term 'Report' in their totality to cover the accounts of the expenditure and revenues - of Union and State Governments were not really recognised after the Constitution came into force. The *status quo* continued, in view of Article 149 of the Constitution, which provided that 'the CAG shall perform such duties and exercise such powers as have been laid down by an Act of Parliament and till such an Act is passed, shall perform the same duties and exercise the same powers, as were available to him prior to the commencement of the Constitution'. However, the recognition dawned that in view of the oath taken by the CAG before he entered upon his office to uphold the Constitution, which placed on him a special responsibility of his own for the interpretation of the laws,

* Paras 6 and 40 of the First Report of PAC (1957-52) and Appendix *ibid.*

regulations and statutory rules, the application of which came within the purview of audit and since no portion of the accounts of the Union or the States - whether expenditure or revenue - could be kept outside the purview of the audit of the CAG or entrusted to any other person, the constraints of 1936 order ran counter to the letter and spirit of the provisions of the Constitution. The Attorney General of India had construed that the expression "Reports relating to the accounts of the State" included both expenditure and receipts.

NEW INITIATIVE

Shri A.K. Chanda took up the question of audit of receipts with the Government of India, and a memorandum of understanding of the audit of Income Tax Receipts and Refunds was agreed to in March 1960 by him and the Secretary to the Government of India, Shri A.K. Roy. According to the memorandum, the audit of the Income Tax Revenue was to be regulated by the general principles governing audit of receipts, laid down in the Audit Code. It was the function of Audit to see that adequate regulations and procedures were framed by the Revenue Department to secure an effective check on the assessment, collection and proper allocation of taxes on income and to satisfy that such regulations and procedures were actually carried out. The correctness of the sums brought to account in respect of Income Tax Revenue was required to be carried out by such examination, as was found necessary. Audit was to satisfy generally that the departmental machinery was sufficiently safeguarded against error and fraud, and that so far as could be judged, the procedure was calculated to give effect to the requirements of the law. It was no part of its duty to pass in review the judgement exercised or the decision taken in individual cases by officers entrusted with those duties, but it was recognised that an examination of such cases was an important factor in judging the effectiveness of assessment procedure. Any further information required to enable it to form the judgement required of it as to the effectiveness of the system could be called for during audit. The audit enquiries were to be directed more to form a general judgement rather than to the detection of individual errors of assessment, etc. The detection of individual errors of assessment was an incident rather than the object of Audit. While accessibility to relevant papers and records of the Department was assured, the secrecy observed by the Department was to be ensured. In respect of receipts and refunds, it was to be satisfied by such test checks, as was considered necessary, that the internal procedure adequately provided and actually secured the collection and utilisation of data necessary for the computation of the demand or refunds under the law, the prompt raising of demands on tax-payers in the manner required by law, the regular accounting of demands, collections and refunds, their credit to the Consolidated Fund, existence of proper safeguards to ensure against wilful omission or negligence to levy or collect taxes, or to issue refunds and pursuance of claims on tax-payers with due diligence and any abandonment or reduction with adequate justification and proper authority and prompt detection and investigation of double refunds, fraudulent or forged refund orders, or other losses of revenue through fraud, default or mistake.

REVENUE AUDIT

The successor CAG, Shri A.K. Roy, with his varied experience in the Income Tax Department and later as Finance Secretary, gave concrete shape, form and right direction to revenue audit by the IA & AD during his tenure. A new revenue audit wing was set up at the Headquarters under the overall supervision of ADAI(HQ), Shri A.K. Mukherji. An officer from the Income Tax Department, Shri V. Gauri Shankar, was taken on deputation in April, 1960 and appointed as OSD in charge of Revenue Audit to direct, supervise and organise the new audit branch. In February, 1962, he was appointed Director (Revenue Audit) which was modified to Director of Revenue Audit in December 1967 and he continued to direct, coordinate and supervise the entire revenue audit work till his retirement on 31st May, 1979. The growth and development of revenue audit in the next 19 years can rightly be attributed to his direction, supervision, initiative and expertise. His retention in the post was a rare exception shown by successive CAsG in letting an individual hold an office for a very long period and bore ample testimony to his indispensability to the Revenue Audit wing. Since his retirement, four officers held the office of DRA, whose tenures ranged from 21 to 77 months.

Initially, 2 IAAS Officers and 7 SAS Accountants, one each from the Headquarters and field offices (Accountants General, Central Revenues, Maharashtra, Uttar Pradesh, West Bengal, Madras and Punjab) were deputed for training in the Income Tax Department upto August 1960, and audit of Income Tax Receipts and Refunds was taken up by these offices on an experimental basis from September/October 1960 in the offices of the Commissioners of Income Tax under the jurisdiction of Accountant General concerned. Regular audit of Income Tax receipts and refunds was commenced from 1st April, 1961. The Accountant General, Central Revenues was designated as the Co-ordinating Officer, as in the case of Custom Revenue Audit. While the general instructions regarding the conduct of local audit, drafting, discussion, issue and disposal of audit inspection reports, issued from time to time were required to be observed, the reports were required to be issued to Income Tax Officers with copy to the Commissioner of Income Tax for sending replies through the latter but important irregularities/issues were brought to the notice of the Headquarters Office. The Revenue Audit was treated as a specialised branch like the Customs Revenue Audit and the persons trained in the branch were utilised for the work for which they were trained. The audit was extended to revenue jursidiction of Commissioner of Income Tax located in territorial domain of the Accountants General, Andhra Pradesh, Bihar, Madhya Pradesh, Mysore, Uttar Pradesh and West Bengal during April-June 1961, and Gujarat, Kerala and Assam in Setember 1961. To begin with, one SAS Accountant and 2 UDCs were sanctioned to some of the offices but later 2 SAS Accountants and 6 UDCs depending on the volume of work were sanctioned in some other offices. The DAG (OAD) supervised the revenue audit wing and the AAO supervised the field parties to the extent of 50% of party days. Initially the local audit reports were forwarded to Headquarters Office for scrutiny before issue. Each AG was required to train up certain number of additional personnel, in the cadre of AAOs, SAS Accountants and UDCs for a period of four months from April 1961 in the Income Tax Department.

EXTENSION TO STATES

The Conference of the Chairmen of the PACs in India held in 1959, recommended that the PAC in the State might suggest to the State Government the feasibility of audit of receipts by the CAG. The question of audit of sales tax receipts was taken up by the CAG with the State Governments and the Government of India in regard to Union Territories early in 1961 and the State Governments issued orders entrusting the audit of sales tax receipts and refunds to the CAG during 1961 to 1968. Similar orders were also issued by the President in respect of the Union Territories. The Government of Madhya Pradesh issued orders entrusting audit of Excise Receipts and Refunds in June 1964, Uttar Pradesh and the Union Territory of Goa, Daman and Diu in 1960. Audit of Mining Receipts in Bihar, Motor Vehicles Tax Receipts in Orissa, Tamil Nadu and Mysore, Agricultural Income tax Receipt in Orissa from April 1971, Entertainment Tax in Mysore and Electricity duty from April 1967 in Orissa, September 1968 in Tamil Nadu, April 1971 in Mysore and from 1966 in Uttar Pradesh, were entrusted to CAG.

CENTRALISATION AND SPECIALISATION

The coordination work of Revenue Audit of Income Tax and Central Excise Duties and Refunds was taken over by the Headquarters Office from October 1961 onwards alongwith the staff. The Headquarters

Office received half yearly reports, in September and April, containing material for Audit Report on the work done, the main irregularities detected and other interesting factors noticed during local audit, from field offices. Material for preparing the draft paragraphs for inclusion in the Audit Reports was also received in the form of an Annual report. A digest of important cases noticed during revenue audit was circulated half-yearly to the field offices to inform the practitioners of the scope and trend of the revenue audit.

Apart from draft paras supported by briefs and copies of relevant correspondence along with the individual cases of under-assessment or within specified monetary ceiling, cases where demand notices for advance collection of taxes were not issued, pending appeal cases, outstanding assessment cases and any other material relevant to reporting were received in Headquarters office. The quantum of audit checks, duration of audit, check of assessment records, revision cases, collection of revenue, test check of registers and returns, extent of review of audited documents for the SAS accountant and the AAO, were revised. Total number of cases in which concealments of income tax were detected by the Income Tax Department, the extra tax and the penalty levied on completion of the investigation in those cases were reported to Headquarters office for inclusion in the Audit Report. The percentage of audit to be conducted in regard to the assessment cases was revised in August 1962, both the extent of audit and financial ceiling of units to be audited, and limited delegation to the AG was given in regard to executing programmes. The Reports issued after the local audit of Income Tax Offices were termed as Local Audit Reports since the term Inspection Report in the Income Tax Department had come to connote the Inspection Reports of the I.A.Cs and the Commissioners of Income Tax. Duration of local audit of ITO was modified to suit the nature and frequency of such audits. Three UDCs for each revenue audit party was sanctioned. The total financial effect due to remission of revenue and abandonment of claims to revenue by write-off in respect of Customs, Union Excise Duties, Corporation Tax and Tax on Income were required to be reported for inclusion in the Audit Reports. The DAG, Revenue Audit, was sanctioned a special pay and the principles that should govern field supervision and the average minimum of field supervision to be carried out were prescribed. Certain delegation of authority for dropping objections with tax effect was given to the Accountants General/Deputy Accountants General/Assistant Accounts Officers, etc. in the field offices on the analogy of the practice prevailing in the Civil Audit and Accounts offices.

The Administrative control of the Customs Revenue Audit Wings was taken over by the Headquarters Office in October 1961 and the separate cadre of Customs Revenue Audit was abolished. The Customs Act 1962 and the Rules framed thereunder changed the scope and contents of Customs Audit, system and procedures to be followed. A reorientation of audit approach in the light of the 1962 Act was made.

Objections, which were not accepted by the department, were referred to the Headquarter's Office along with the Department's replies and further remarks of the Accountant General for further pursuance and final action. The DRA scrutinised all orders, notifications, circulars and clarifications issued by the Central Board of Excise and Customs or the Government of India, as the case may be. Objections which were fit for draft paras were processed as draft paras for Audit Reports. The minimum amount for a draft para was Rs. 5,000 in an individual case. After approval by the Accountant General, it was sent to Headquarters Office. Statements of amounts remitted, written-off or abandoned during the year for various reasons, particulars of cases of frauds and evasions during the year, statement showing the names of the persons, the articles imported and customs duty involved in each case in respect of exemptions under Section 25(2) of Customs Act, 1962, during the year, statement containing the total amount in respect of arrears of customs duty, demands issued upto the period ending March of the year and pending as on the last day of October of the same year and of time barred demands where requests for voluntary payments have been made were sent to the Headquarters Office for incorporation in the Audit Report.

REGULARITY AUDIT

Even while scrutinising completed assessments, which were just *quasi-judicial* orders and cannot be equated to judgements of a Court of Law, a broad distinction was kept in view, between acts done in exercise of the discretionary powers vested in the I.T.O. by the statute and acts done in exercise of non-discretionary powers *i.e.* the mandatory provisions of the law. While audit did not question the first, it satisfied itself that a decision purporting to be in pursuance of a discretionary power was in fact so. Cases where the discretionary power was consistently used in a way which, *prima facie*, appeared to be *mala fide* or improper, were commented upon. The attention of the Income Tax Department was drawn to the cases where there has been a departure from the mandatory provisions of law laid down by the Parliament or the rules made thereafter along with the effect of such a departure *i.e.* whether it has resulted in an under-assessment or an over-assessment. In sum, CAG's constitutional duty was held to be not only to see that all demands raised were promptly collected and credited to the

Consolidated Fund of India, but also that those demands were correctly raised and they satisfied the requirements of the law. The nature and extent of audit to be conducted for this purpose was to be determined solely by him. In the discharge of his constitutional responsibilities due regard was always paid to the decisions of Courts of Law. While the decisions of a High Court were binding on the officers within the jurisdiction of that High Court till such decisions were in any way modified or overruled by the Supreme Court, in rare cases, where no authoritative judicial decisions of a High Court or the Supreme Court were available, according to the CAG the correct requirement of the law was on the basis of the plain meaning of the statute, which was put forward to the Revenue Department for consideration and action.

THE CONCEPT AND GROWTH

The concept of audit of receipts was inherent in the powers vested in the CAG of India by the Constitution, which specifically laid down for submission of the reports on the accounts of the Union and the States to the President or the Governor of a State for being laid before each House of Parliament or Legislature and the reports related to the totality of the accounts of the Union or a State - both receipts and the revenues of the Union and of the States. The procedures relating to audit of Central Excise and Income Tax Department were derived from the general principles relating to audit of receipts, as laid down in Chapter IV of Section II of Manual of Standing Orders (Tech.) of the CAG. The basic purpose of audit was to ensure that the moneys, which were due had been properly collected, and accounted for, and that the Executive did not grant unjustified or unauthorised remissions to tax-payers. Attention was focussed not only to examine the records of amounts actually received, but also to ascertain that adequate precautions were taken to ensure that all amounts received or due to be received in the period of account were properly and promptly brought to account. As the laws under which the revenue was collected provided for judicial remedy or judicial interpretation, audit confined to those matters, which were not subjected to judicial processes. It was primarily the responsibility of departmental authorities to see that all revenues or other debts due to Government, which had to be brought into account were correctly and promptly assessed, realised and credited to Government account. The most important function of Audit was to satisfy that adequate regulations and procedures have been framed by the Revenue Department to secure an effective check on the assessment, collection and proper allocation of taxes and to satisfy that such regulations or procedures were actually carried out. It also made such examination as it thought fit with respect to the correctness of the sum brought to account. It satisfied itself in general that the departmental machinery was sufficiently safeguarded against error and fraud and that so far as can be judged the procedure was calculated to give effect to the requirements of the law. While it was not a part of its duties to review the judgement exercised or the decision taken in individual cases by officers entrusted with those duties, it was recognised that an examination of such cases was an important factor in judging the effectiveness of assessment procedure. The detection of individual errors was an incident rather than the object of audit. Accessibility to the relevant records and papers of Revenue Department, was assured but observance of secrecy, as followed by the officers of the Revenue Department, was equally ensured. In relation to Income Tax assessments and refunds, test-checks as considered necessary, were carried out to satisfy, that internal procedure adequately provided for, and secured the collection and utilisation of data necessary for the computation of the demands or refunds under the law, the prompt raising of demands on tax-payers in the manner required by law, regular accounting of demands, collections and refunds, the correct accounting and allocation of collections and their credit to the Consolidated Fund; existence of proper safeguards to ensure that there was no wilful omission to levy or collect taxes or to issue refunds; that claims on tax-payers were pursued with due diligence and were not abandoned or reduced except with adequate justification and proper authority; that double refunds, fradulent or forged refund orders or other losses of revenue through fraud, default or mistakes were promptly brought to light and investigated; and that interest payable to assessees or recoverable from them was properly calculated in accordance with law, and that no interest was paid on account of delayed refunds without adequate justification.

Even when the Executive Authorities exercised discretionary power conferred on it under the respective Acts, it was examined from the higher audit point of view, not to question the exercise or non-exercise of discretionary powers, but to satisfy that the powers were exercised in the interest of the community, since the vesting of discretionary powers in the Executive could have only that end in view. Audit comments were drafted very carefully, so as to avoid giving an impression, that audit was encroaching on the executive responsibility. Quite often, a mere factual statement brought out the points of objection with telling effect.

AUDIT OF CENTRAL EXCISE RECEIPTS

The principles of audit of central excise receipts and refunds were identical subject to the changes necessitated by the statutes, rules, regulations, systems and procedures followed by the Central Excise Department. The audit of central excise receipts was to be conducted with reference to the Central Excise and Salt Act, 1944 (as amended from time to time) and the Central Excise Rules made thereunder. Examination of the decisions taken in individual cases by officers entrusted with the duties was an important factor in judging the effectiveness of assessment procedure and in carrying out such scrutiny. Audit was entitled to ask for further information to enable it to form the judgment required of it as to the effectiveness of the system. The audit enquiries were to be directed to form a general judgment rather than to the detection of individual errors of assessment, etc. The most important function was to satisfy itself by such test checks as considered necessary, that the internal procedure adequately provided for and actually secured the collection and utilisation of data necessary for the computation of demand or refund under the law; the prompt raising of demand on tax-payers in the manner required by law; the regular accounting of demands, collections and refunds; the correct accounting and allocation of collections and their credit to the Consolidated Fund; that proper safeguards existed to ensure that there was no wilful omission or negligence to levy or collect taxes, or to issue refunds; that claims on tax payers were pursued with diligence and were not abandoned or reduced except with adequate verification and proper authority; that double refunds, fraudulent or forged refund order, or other losses of revenue through fraud, default or mistake were promptly brought to light and investigated. Sanctions were scrutinised with reference to the Acts, Rules, instructions and notifications, etc. and any sanction or order likely to result in loss of government revenue was to be brought to the notice of Government. All orders delegating powers to subordinate authorities were scrutinised, not only to see their competence to delegate, but also their regularity and adequacy. Initially, the AGCR was made responsible for audit of all general sanctions, orders and interpretations of the Government of India and of the Central Board of Excise and Customs *i.e.* sanctions, etc. which were issued to all Collectors of Central Excise. The other Accountants General were responsible for the audit of other sanctions, orders and interpretations of the Government of India and the Central Board of Excise and Customs *i.e.* those which were not communicated to all Collectors of Central Excise. All trade notifications and tariff rulings of Collectors of Central Excise were audited by the Accountants General concerned in consultation with the AGCR. After transfer of this work to headquarters office, the DRA conducted the sanction audit, issued directions for implementation by field audit offices. Material for the Central Civil Audit Report on Revenue Receipts was sent half yearly in April and in September to the headquarter office, where the draft paragraphs were processed and taken up with the Government of India. Correspondence of draft paras was carried on by the Headquarters Office with the Ministry of Finance (Revenue Department) or the Central Board of Excise and Customs. While the cases disclosing the errors of procedure or principle were invariably brought to the notice of the Collector of Central Excise, irrespective of the amount involved, in other cases where delegation of powers to waive objections by the Accountant General, Deputy Accountant Geneal and Assistant Accounts Officers, the latter could take action to close them finally.

CODIFICATION

The policy statements, directions, instructions issued since the commencement of revenue audit were manualised in May 1962 by Shri A.K. Mukherji. Revenue Audit Manual, Part I (Income Tax Law) explained the basic provisions of the Law relating to the levy, assessment and collection of Income Tax and refunds and the nature, scope and *modus operandi* of audit of the offices of the Income Tax Department. Section II of the Revenue Audit Manual containing the departmental procedures relating to the levy, assessment and collection of Income Tax and prescribing the extent of audit scrutiny was issued in July 1963. The organisational set up of the Income Tax Administration, the powers of the several authorities entrusted with the administration of the Income Tax Act, 1961 and the arrangements for local audit of Income Tax Offices and processing of results of audit by 13 principal audit officers - Accountants General, Central Revenues, Andhra Pradesh, Assam, Bihar, Gujarat, Kerala, Madhya Pradesh, Madras, Maharashtra, Mysore, Punjab, Uttar Pradesh and West Bengal - who audited the charges of 20 Commissioners Income Tax was explained in the Manual. The coordination work in connection with the audit of Income Tax receipts and refunds was done by the Directorate (Revenue Audit) in the office of the CAG of India. The Revenue Audit Manual Part II was issued in February 1961 on audit of Central Excise Receipts and Refunds. The organisation of the Central Excise Department, assessment procedure for manufacturing goods and their audit, assessment procedure for manufactured commodities and their audit, collection and accounting of duty, exports of excisable goods out of India, rebates, remissions and refunds of duty and audit checks to be applied on each arrears, adjudications, confiscations and penalties, audit of sanctions and miscellaneous revenue returns and processing of the results of audit formed the contents of the Manual. By March 1962, 22 Assistant Accounts Officers, 55 SAS Accountants and 165 Upper Division Clerks were employed on revenue audit wing in various Civil Audit and Accounts Offices.

A new Customs Revenue Audit Manual based on the changes in the Constitutional status of the CAG of India and the Customs Act, 1962 and Rules and Regulations framed thereunder was issued on 24th May, 1974 by the then ADAI (Rec. Audit), Shri S. Vasudevan. It laid down *inter alia* the principles of Customs Revenue Audit, Organisation and functions of the Department, the Customs Act, 1962, the Indian Tariff Act, 1934, the rules, regulations, systems and procedures, in regard to various types of Customs Revenue - imports by sea, exports, air cargo, ships' files, baggage, postal appraisement, drawback, warehousing, short-realisation, remissions and refunds, confiscations, writes-off of revenue, other receipts, foreign travel tax, the audit checks to be conducted under each, audit procedure and results of audit.

ACHIEVEMENT

The next two decades witnessed one of the most fascinating creative development of the theory and practice of revenue receipt audit in the history of any S.A.I. in the world, the former by intensive study of the basic Acts, Rules, Regulations and Instructions of the law making and implementing authorities and the case laws as developed by the department, courts and tribunals, etc. and their extensive use in formulating the principles and procedures of audit, and the latter by their application in the field by the newly trained personnel at all levels. The direction, coordination and processing of the results of field studies with sensitive departments, who had hoary traditions in the specialised area of raising demands and collecting monies in the Government of India - both in the office of A.G. and by the Headquarters office, was mainly instrumental not only to provide a sound foundation, but also to meet the unforseen challenges from the auditee institutions at different levels for the benefit of the departments concerned. The question, whether Revenue Audit Organisation could form a separate branch outside the Civil Audit and Accounts Offices was considered in 1962, and it was decided to keep it as a part of the Civil Audit and Accounts Offices, as knowledge of the state langauges was considered necessary for auditing the Sales Tax Receipts, and other receipts of State Government and a centralised cadre with the liability of transfer all over India might not obtain the requisite personnel - the SAS Accountants and Accounts Officers conversant with all the regional languages. Also, a separate Revenue Audit cadre in each civil audit office was not considered viable from the point of view of work load and working strength, based on the standards adopted by the department, and a small cadre may hamper the career prospects of the constituents. In retrospect, it turned to be a wise decision, as events showed later.

The relationship between the new revenue audit department and administration - the Income Tax Department and Customs and Excise Department considerably improved during the tenure of Shri S. Ranganathan. While addressing the Conference of the Commissioners of Income Tax on 16th May, 1969, he mentioned that 'there was now greater understanding between the officers conducting Revenue Audit and the Income Tax Officers and hoped that the Commissioners will regard audit as an ally of Administra-tion and not a sterile or carping critic'. He also stressed on the need for making available the required files to audit and also to dispose of audit memos without delay, especially where confirmation or verification of facts were only involved. He recalled the statement of his predecessor "that the end of audit is to end audit" and stated that he would be most happy, if nothing was detected by his officers.

REVENUE AUDIT RESULTS

A new chapter incorporating audit comments on Revenue Receipts relating mainly to Customs, Union Excise Duties and Income Tax appeared first in Audit Report (Civil) of Central Government 1962 in three parts. The introductory paragraph to the Audit Report, 1962 indicated historical background of Receipt Audit and the scope prior to 1960-61, decision to introduce the audit of Income Tax and Central Excise Receipts from 1960-61, initially on an experimental basis and subsequently as a regular measure, and the areas covered since the taking up of the audit from April 1960 to October 1961. Part I on Customs, contained variations of the actuals from the estimates under "Customs Duty", underassessment and administrative delay in recovery of customs duty on Government consignments, assessments under the 'Note Pass'; procedure and delay in recovering Customs dues on unclaimed goods from the Bombay Port Trust; Part - II on Union Excise Duties contained variations of the actuals from the estimates under "Union Excise Duties", underassessment of duty on oils, paints and enamels due to wrong interpretation of the term 'year', incorrect assessment of Central Excise Duty, omission to levy duty on shortages noticed in stock of cloth, failure to assess excise duty in time and consequent withdrawal of claims as time-barred, arrears of assessed demands and *ex-gratia* refund of excise duty. Part III on Income Tax incorporated variations of the actuals from the estimates under 'Corporation Tax' and 'Taxes on income other than Corporation Tax', depreciation allowances incorrectly admitted, excessive rebate allowed from super-tax payable by companies, excessive credit of income tax given while grossing up dividends, excessive reliefs, deduction wrongly allowed in determining the taxable income, arithmetical inaccuracies while determining the taxable income, irrecoverable income tax dues of Rs. 56.22 lakhs from a foreign company, failure to demand advance tax and to make provisional assessments and arrears of tax demands and the progress of the work made by the Special Cell (Income Tax) of the Central Board of Revenue.

Audit Report on Revenue Receipts was issued as a separate volume from 1963 onwards under the signature of AGCR, which contained four chapters. Chapter I was General, which indicated Revenue position under the main heads of revenue receipts with particular reference to revenue budget and points of interest noticed in audit under respective branches of revenue receipts, which were included in subsequent chapters; Chapter II on Customs, Chapter III on Union Excise duties, and Chapter IV on Income Tax. There were 43 paras on 47 pages, of which 28 were substantial comments, 19 on direct taxes and 9 on indirect taxes. The prefatory remarks indicated the scope of audit in each branch of revenue department. In customs, a test audit of bills of entry, shipping bills and other documents maintained in the Sea Customs Ports and Land Customs Stations; in Central Excise, in addition to a test audit of assessment documents and other records of the Chief Accounts Officers attached to the 15 Central Excise Collectorates and the test audit of the initial records and accounts maintained in respect of 825 Central Excise ranges out of 1,781 ranges, and in Income Tax - a test audit of 543 Income Tax Officers' charges out of 1,291 charges and review of 38,023 cases in 543 offices was conducted. 1965 Report included a fifth chapter on 'Other Revenue Receipts', and contained 87 paras and substantial comments were 53 - 22 on Central Excise, 9 on Customs and 22 on Direct Taxes. A chapter on Wealth Tax, Gift Tax and Excise Duty was added to 1969 Report. 1970 Report had 77 paras spread over six chapters on 89 pages, 1970-71 Report had 97 paras, which included 61 effective paras - 16 on Central Excise, 9 on Customs and 36 on Direct Taxes and covered 101 pages. In all, 11 years' Reports contained 496 paras of substantial nature.

ECHO IN PARLIAMENT

The role of Revenue Audit relating to Income Tax figured in the discussions in Parliament on 22nd June, 1967, when Shri K.C. Pant, Minister of State in the Ministry of Finance clarified that "The Comptroller and Auditor General conducts Revenue Audit through the officials of the Indian Audit Department. The purpose of audit is to see that adequate regulations and procedures have been framed by the

Revenue Department to secure effective check on assessments and collections as also to see that such regulations and procedures are actually being duly carried out. In the discharge of these functions, the CAG points out mistakes involving substantial revenue. It will be in the discretion of the Income Tax Department to take suitable remedial measures. Audit sees whether the taxation laws and the rules framed thereunder are correct and are promptly observed by the department. They have to examine certain cases in this connection. To examine the individual cases is not their ultimate aim. Their aim is to see whether the laws and the rules are properly observed".

Shri Morarji Desai, Deputy Prime Minister and Finance Minister intervened to reiterate that "The main function of audit is to see whether the work done is supported by law or not and whether the decision given by the I.T.O. is in accordance with law or he has given according to his own whims or he has purposely done it to harass or for some other reasons. The audit examines them and if they call for comments, then the I.T.O. can furnish a straight reply. There should be no dispute about this. The purpose of the Auditor General and the work that is performed by the Audit Department is not properly realised. The Auditor General can question even the decision of a Minister, if it is wrong. There is nothing wrong in that. Why should any officer be afraid, if he is an honest man and if he does his work properly? He need not be afraid of any criticism made by the Auditor General. Government are bound to protect him. If he has done something wrong, the audit should be thanked for pointing it out".

THE PUBLIC ACCOUNTS COMMITTEE'S RECOMMENDATIONS

The Public Accounts Committee examined most of the paras, including routine ones contained in the Reports of 1962 to 1970-71 and presented common reports. Out of 780 paras, 627 paras were discussed during these years (1962-63 to 1970-71) *i.e.* 80% of the paras in the Report and the number of paras examined ranged from 24 to 83 which was a measure of the enthusiasm and zeal of the Committee in encouraging parliamentary control over revenue receipts of Government of India. Its recommendations in the sphere of internal audit and budgeting of revenue receipts reflected best the evolution of its approach to the new sphere of its activity.

(1) INTERNAL AUDIT

(i) The Committee took* a serious view of the mistakes in levy of Customs Duty, despite a cent per cent check of the assessments

* 21st Report of PAC (1963-64) on AR 1953.

made by the Internal Audit Department and suggested a proper review of the staff position to make up the deficiencies, if any, and to examine whether in order to make the Internal Audit Department free from the influence of the Appraising Department, it should be recognised and placed directly under the control of a Member of the Board of Revenue.

(ii) The Committee** regretted that inspite of their observations in the 21st and 27th Report (Third Lok Sabha) no improvement was visible in the working of the Internal Audit Organisation and hoped that the reorganisation would be given immediate consideration and all necessary steps would be taken to improve the working of the Internal Audit Organisation.

(iii) The Committee$ drew attention to the inadequacy of the Internal Audit Organisation in the Central Excise Department and desired that Government should take an early decision on the question of setting up an independent Directorate of Internal Audit, which would be common to all Revenue Departments or alternatively a separate Directorate of Internal Audit for Central Excise.

(iv) The Committee@ impressed on the Government to pay serious attention to the qualifications and grade of persons of the Internal Audit Organisation. They should be not only well qualified, experienced and trained in the work of taxation but should also be given adequate incentive to perform faithfully their duties as auditors. The internal audit parties should be headed by a senior officer who should preferably work under the Central Board of Direct Taxes so as to inspire confidence that they can discharge their duty without fear or favour.

(v) In the course of the evidence given during the hearings on chapters 1 to 4 of the Audit Report (civil) on Revenue Receipts, 1967; the chairman of the Board of Direct Taxes and the Secretary of the Revenue Department conceded that the Revenue Audit has been of great help to the Revenue Department in setting its house in order and that the complaints heard from some of the quarters about the interference of the Revenue Audit in the Administrative decision of the Income Tax Authorities were not genuine. The members of the PAC

** Second Report of PAC (1967-68) on AR 1966.

$ 72nd Report of PAC (1968-69) on AR 1968.

@ Para 2.50 of PAC's 29th Report (1967-68) on AR 1967.

also expressed appreciation about the performance of Revenue Audit Branch.*

(vi) The Committee** hoped that pursuant to the recommendations of the Committee in an earlier Report (paragraph of 95th Report Fourth Lok Sabha), Government would take necessary steps to strengthen the Internal Audit Organisation not only in terms of number but also in respect of quality of work by streamlining its functions and procedures

(vii) The Committee$ observed that a large number of cases of under-assessments and over-assessments escaped the notice of internal audit parties in the department and noted that a number of steps have been taken in this regard and hoped that would show qualitative improvement.

(2) BUDGETING OF REVENUE RECEIPTS

On budgeting of revenue receipt, the Committee were apprehensive that no serious effort was made by the department to make the estimates of collections from duties accurate and realistic so as to provide reliable basic data for varying the rates of duty. While the Ministry's proposal to take some further measures to base the estimates on better and upto-date statistical data with the help of computers and to bring about better coordination with other departments in the matter of commodity forecasts was noticed, the Committee suggested* that towards the end of the year a critical review of the estimated receipt vis-a-vis the actuals should be made, so that in the light of the findings, necessary correctives can be applied to make the estimates for the next budget more realistic. Non-maintenance of the buoyancy in the rate of growth of taxation obtained in the earlier years of the Third Five Year Plan was adversely commented upon. In fact, Ministry had admitted that there was hardly any normal growth in 1966-67 and 1967-68.

(3) The result of test-check of major revenues of the Central Government *viz.* customs, central excise and income tax brought out considerable amount of under-assessment and over-assessment of duty/tax besides various procedural irregularities which were reported in every year's Report. The extent of under-assessment/ over-assessment of tax/duty reported are shown in figures 17.1 and 17.2.

* Extract from Shri R.K. Khanna's d.o. letter No. 4800-Revenue Audit/381-61 dated 23rd December 1967 to Auditor General.

** Para 1.32 of 11th Report of PAC (1969-70) on AR 1969.

$ Para 2.9 of 73rd Report(1968-69).

* Paras 1.21 to 1.23, 2.20 etc. of 29th Report of PAC 1967-68.

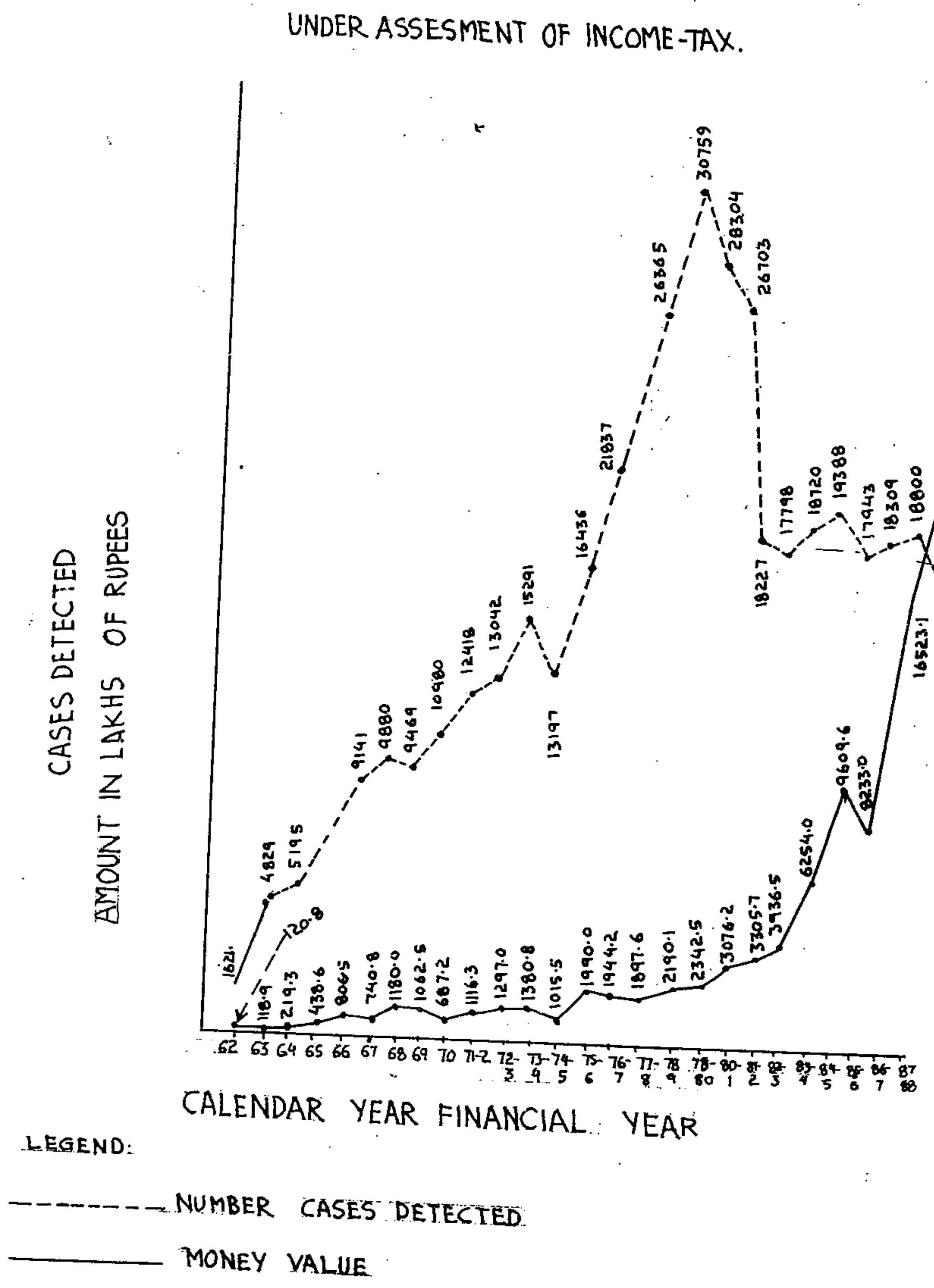


Fig. 17.1: Under Assessment of Income-Tax

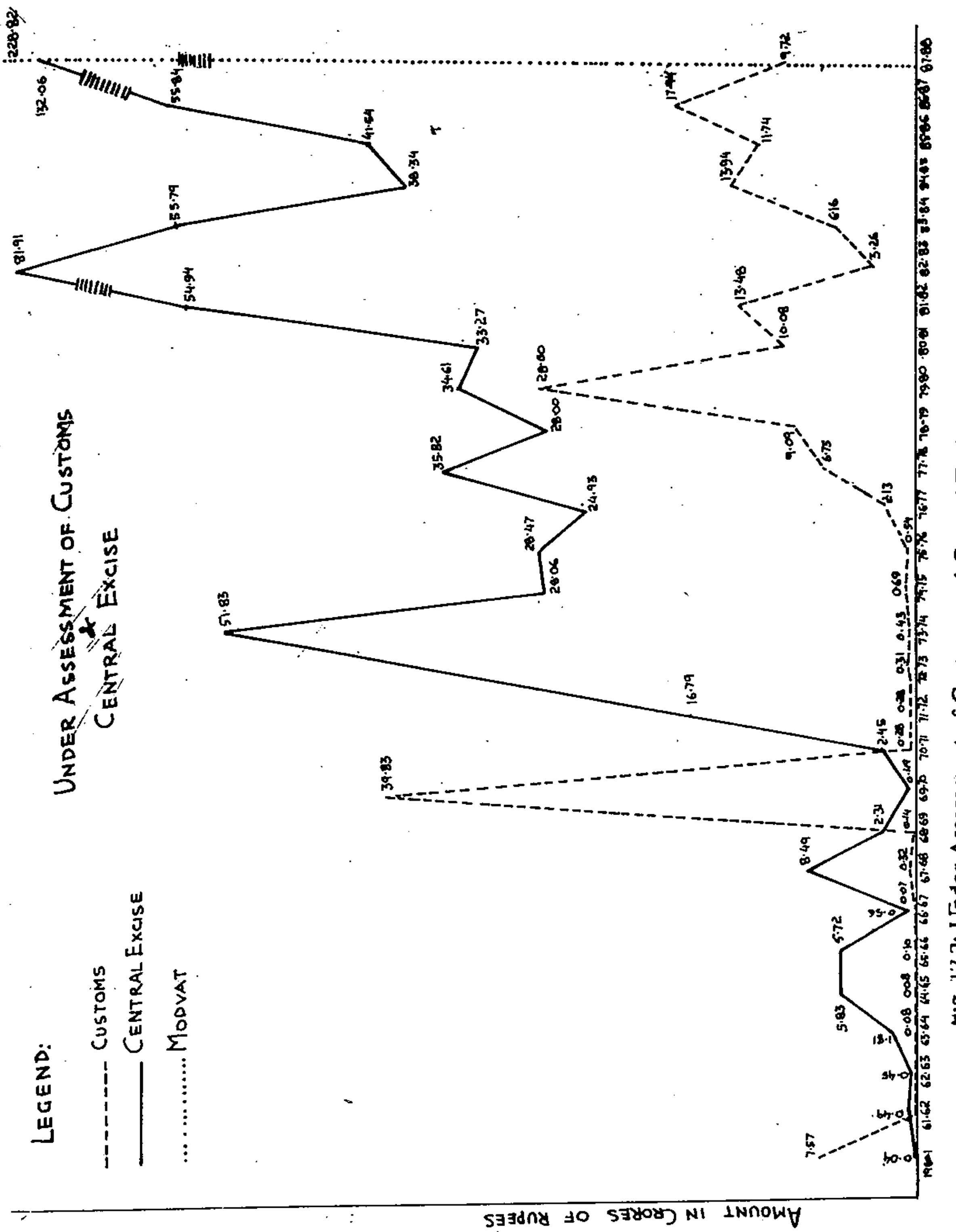


Fig. 17.2: Under Assessment of Customs and Central Excise

(4) Few instances of irregular notifications and circulars issued by the Board, which had considerable recurring impact on the revenues of the country, mentioned in the Audit Reports issued were :

(i) Grant of irregular exemption from income tax and super-tax in respect of interest on government securities held by Ex-Rulers as their private property by a notification in December 1930 [Para 39(2) of Audit Report on Revenue Receipts, 1963].

(ii) Omission to take into account bonus for the purpose of calculation of value of rent-free accommodation through Board's circular of 1956 and 1960 [Para 77(b) of Audit Report on Revenue Receipts, 1965].

(iii) Concessional rates of central excise duty on the successive slabs of cycle tyres, tubes and rims produced by a manufacturer during a financial year were incorrectly extended to a manufacturer, who manufactured them for itself as well as for two other companies in the same premises severally, treating the three companies as separate manufacturers, though there was only one manufacturer and one factory. The Government withdrew the concession irregularly enjoyed for about three years by the two companies. [Para 39 of Audit Report, 1964].

(iv) Under the budget changes introduced with effect from 1st March, 1964, cotton yarn, when sized was leviable to central excise duty on the weight of the sized yarn, instead of on the unsized weight and the practice of the department was, however, to levy duty on the basis of the unsized weight of sized yarn, involving under-assessment of tax of about Rs. 47 lakhs for the period 1st April, 1964 to 31st March, 1966 [para 32(c) of Audit Report, 1967].

(v) Certain comments made on defects in departmental procedure to focus attention on neglected fields of assessment were :
delay in disposal of confiscated goods, lack of coordination between the Port Trust and Custom House in the matter of landed goods, defects in following the prescribed procedure of deduction of tax at source from salary and omission to deduct tax at source from salaries of persons working in foreign missions in India [Paras 18, 19 and 52 of Audit Report 1966].
- irregular collection of amounts to make good the shortfall in budget estimates [Para 55(d) of Audit Report, 1967].
- delay in the disposal of seized conveyances, over invoicing of value and delay in disposal of seized goods and deduction of

tax at source by companies on dividends distributed [Para 16, 64 of Audit Report, 1968].

- effective guarantee bonds obtained before granting tax clearance certificates [Para 62(a) of Audit Report, 1969].

Arrears in assessments, recovery of demands, expeditious settlement of refund claims, etc. were regularly commented in the Revenue Audit Reports and the PAC made several useful and important recommendations regarding reduction of work-load of officers, whose need for additional staff could not be met, streamlining of the departmental machinery, etc. which had a salutary effect on the working of the department and paved the way for its better working.

(5) Audit Report incorporated critical studies of new schemes introduced by Government from time to time on which the PAC made suitable recommendations to Government for implementation of the audit comments on Voluntary Disclosure Scheme [Para 59 of Audit Report, 1966].

(i) The PAC noted that the main objectives underlying the two 'Voluntary Disclosure Schemes, namely, to bring out unaccounted income and encourage assessees to adopt the right path of rectitude had not been achieved and the unsatisfactory results of the Voluntary Disclosure Scheme, its very nature and inherent weakness, made it feel that no Voluntary Disclosure Scheme can ever be a real success. A disproportionate amount of energy was spent on unimportant cases of honest and relatively small tax payers, while tax evaders either went scot free or were afforded opportunities to make voluntary disclosures. While noting the measures proposed to be taken by the Department to divert time and energy at present devoted to small tax payers to deal with tax evaders, it was suggested that a study should be made of the disclosures made under the two voluntary disclosure schemes in order to effect improvements in the system of survey. Had the objectives been clearly grasped at the time of drafting the first voluntary disclosure scheme, the lacuna noticed could have been avoided. The Committee* hoped that learning from this experience Government would ensure that before giving legal shape to fiscal measure, its objectives would be clearly spelt out so that difficulties of the nature experienced in

* Para 1.69, 1.79, 1.88 of the 17th Report of PAC on Para 59 of AR 1966.

implementing the first Voluntary Disclosure Scheme would not re-occur;

(ii) The recommendations$ of the Committee, on the para on Annuity Deposits Scheme, was that the management charges for the Annuity Deposits Scheme paid to the Reserve Bank have increased from Rs. 2.36 lakhs in 1964-65 to Rs. 25.72 lakhs in 1966-67 and evidently if the Scheme was continued, the management charges would increase heavily and hoped that Government would find it possible to discontinue the scheme at the end of the current financial year. The Committee also hoped that in launching new schemes under the taxation laws in future, adequate consideration would be given to all aspects and implications of the proposal.

(iii) The Public Accounts Committee expressed* surprise at the exclusion of Wealth Tax, Gift Tax and Estate Duty, which were also direct taxes, under the purview of Revenue audit and felt that this should have been done simultaneously, when Revenue Audit was extended to Income Tax. The receipts from these taxes were increasing and it was also necessary to correlate the data given in income tax returns and other taxes returns to detect malpractices of the kind reported in the present case. In view of the singular service rendered by the Revenue audit to the assessment and collection of Income-Tax, Customs and Central Excise, it was the considered opinion of the Committee that the scope of the Revenue Audit should be suitably extended forthwith so as to include all the central taxes without any distinction and reservations.

REACTION OF DEPARTMENT

The Chairman, Central Board of Direct Taxes observed during the course of his evidence to the PAC that "I personally feel that Audit, an independent agency, has been helping us to know our difficulties and to set our house right. That has been my approach in the matter." The Secretary, Department of Revenue added that "There can be no disputing the fact that Revenue audit has been performing a very useful role. The total quantum of work on all the Income Tax Commissioners and on the Income Tax Officers has, however, increased so much that they consider any kind of a probe, examination of records by any agency,

$ Para 51 of AR 1967 and 17th Report of PAC (1967-68).
* Para 1.111 of 46th Report of PAC (1965-66).

to be an interference with whatever their time schedule is, so that the solution will lie not in dispensing with audit, but in providing suitable jursidiction arrangements and also in manning adequately the offices of the Income Tax Commissioners. We will have to find out a solution whereby these people do not feel so overwhelmed with work that any questioning, any clarification sought by revenue audit is considered by them to be an imposition on their time". The Committee* have carefully considered the various mistakes and irregularities pointed out by Revenue Audit and as mentioned elsewhere in the Report, "very large revenue but for the test audit were likely to have been lost." The committee were glad that the Ministry of Finance (Dept. of Revenue) also realised the importance of revenue audit. The Committee expected that as stated by the Secretary of the Revenue Department, there would be willing co-operation of the Departmental Officers with Revenue Audit in the matter of complying with audit requirements.

In March 1972, the strength of the revenue audit was 1693 - 1251 in Central revenue audit (130 AOs, 425 SAS Accountants, 624 UDCs, 72 LDCs) in 39 Headquarters sections with 5 AOs, and 233 parties with 125 AOs and 442 in State revenue audit (38 AOs, 115 SAS Accountants, 278 UDCs and 11 LDCs) in 43 Commissioner of Income Tax charges, 17 Collectorates of Central Excise and Customs. The group supervision was exclusively provided by Sr. Deputy Accountants General in 4 offices (AGCR, AG Central, Bombay, AG Central, Calcutta and A.G., Tamil Nadu), 5 Dy. Accountants General in 5 offices [AG(II) Andhra Pradesh, AG, Gujarat, AG, Madhya Pradesh, AG, Mysore and AGII, Uttar Pradesh], Sr. Dy. Accountants General (Inspection-Commercial) and by common group officers for more than one wing of OAD or Works in 12 offices and an Addl. A.G. in one office.

MUKHERJEE COMMITTEE RECOMMENDATIONS

Examination of certain matters in regard to audit of receipts under Section 16 of the CAG's Act for suggesting guidelines to be followed for adequately discharging the due responsibilities, was one of the terms of reference entrusted to the Committee headed by Shri A.K. Mukherjee set up in February 1972 by the CAG of India. The Committee recommended *inter alia* that general principles of audit of receipts laid down in chapter 4 of section 2 of the CAG's Manual of Standing Orders (Technical) Volume I and the Introductory chapter in Revenue Audit Manual Volume I, Section I should continue to be observed. The State Governments should be requested to ensure proper documentation,

* Paras 2.32, 2.33 and 2.34 of 29th Report of PAC (1967-68) Fourth Lok Sabha.

wherever documentation was inadequate, for effective audit checks, without seriously hampering trade or commerce or causing an unduly heavy burden on the taxation authorities. Preparation of separate Audit Report on Revenue Receipts of the State Government, as was obtaining in the Centre was suggested. Certain changes in the scope, extent, quantum and periodicity of audit, composition of inspection party to make them SAS oriented and extent of gazetted supervision were recommended. The training of personnel in the various tax revenues of the State Governments was to be intensified and discretion was to be given to the Accountants General to alter them depending on local conditions subject to the approval of the CAG and allocation of adequate resources for training purposes. The Accountants General would be empowered to decide the composition of the parties, especially when there was shortage of SAS qualified personnel and replacement of UDCs by auditors, as and when the cadre of auditors was introduced and specific changes to be made in the audit of each category of state receipts as well as non-tax revenue receipts was also recommended.

The Committee went in depth into the question of separate Revenue Audit organisation. The task force* constituted by the Committee was of the view that revenue audit was a specialised job and in certain areas an intricate one requiring knowledge in depth of various complicated enactments, rules and case laws. Shri S. Vasudevan, AGCR impressed on the Committee that since the application of fiscal laws passed by Parliament and State Legislatures was largely involved in revenue audit, adequate knowledge of fiscal laws was the first essential requirement, which can be built up by some degree of specialisation only. The staff employed in Revenue Audit Branch should have a legal bent of mind and also knowledge of commercial system of accounts. Separation of the work of revenue audit from the Civil Audit and Accounts Offices may help to realise this objective. An apex or central office responsible for laying down general policy in relation to the audit of receipts, preparation of Audit Report, control of the cadre of Accounts Officers and SAS Accountants and other administrative matters in the same manner as the commercial audit organisation with regional offices in places like Calcutta, Bombay, Delhi and Madras, for auditing revenue receipts of the Central Government in the regions was considered desirable. A separate branch under a Deputy Accountant General or a Sr. Deputy Accountant General under the Accountants General in the State can conduct State revenue audit and the results of revenue audit can be processed through the State Audit Report in the manner desired

* Headed by Shri K.N. Bhargava, AG, Andhra Pradesh.

by him. The SAS Accountants and Accounts Officers of the Revenue Audit Organisation in the offices of Civil Accountants General should form separate cadres with the liability of transfer all over India. Recruitment should be made at the level of UDCs and there should be a separate SAS Examination for the persons working in Revenue Audit Branch. A separate Revenue Audit Organisation for both the State and Central Revenues headed in each State by an officer of the rank of Accountant General, with the possible designation of Director of Revenue Audit, comprising of IA & AS, Accounts Officers and SAS Accountants with limited number of lower category of staff was recommended by the Task force.

While Mukherjee Committee agreed with the view that Revenue Audit work was more specialised than expenditure audit and required a legal bent of mind and that knowledge of various taxation laws, enactments, rules and case laws were required for effective audit, but felt that too much specialisation was not a boon in itself, since audit officers were not to become revenue administrators - a faint repetition of what Sir Malcolm Ramsay propounded forty years earlier - and concluded that the balance of advantage rested in retention of the prevailing set up in the field offices. The proposal of the AGCR for a separate office for central revenue audit in certain places like Bombay and Clacutta has already been implemented by the formation of separate offices of the Accountants General, Central at Bombay and Calcutta, where the central revenue audit work had been placed under the charge of Sr. Deputy Accountants General and the scope of the work of the office left the Accountant General time enough to bestow his attention on revenue audit more intimately. In other places, a separate regional office for central revenue audit alone under an AG may not be fully justified. The state revenue audit should continue to remain as part of the Civil Audit and Accounts Offices. During the past decade, expertise in revenue audit work has been developed by organising intensive training courses, etc. The analogy of a separate commercial audit did not also hold good for revenue audit, where diversified activities of commercial enterprises did not exist. A separate organisation for revenue audit with separate cadres of SAS Accountants and Accounts Officers may look initially attractive but later on may not lend itself for further expansion, and consequently the prospects of promotion of the officers and staff may turn bleak. It should be possible to ensure that the SAS Accountants and Accounts Officers remain in revenue audit wing for a reasonably long period in a continuous spell. The Committee, therefore, recommended the continuance of the existing arrangement, keeping Revenue Audit as part of the Civil Audit and Accounts Offices. The structure of Revenue Audit organisation in the existing Accountants General Offices was to be continued. However, strengthening of the supervisory charges in the various offices and also the Headquarters organisation was recommended. In the field, separate group charges for Revenue Audit in 12 offices, 6 posts of Sr. Dy. Accountants General and 6 posts of Dy. Accountants General in the time scale and upgradation of 4 posts in the time scale to the Junior administrative grade were suggested. In Headquarters organisation a separate ADAI (Revenue Audit) was to be created to oversee Audit Reports on both - Central and State Receipts - as well as formulation of policy, direction, co-ordination and providing technical expertise to the field offices. Technical and incidental administrative support to the ADAI should be provided by the continuance of DRA, who may function as the Sr. Principal Audit Officer. Two Jt. Directors for Central Revenue Audit and one Joint Director for State Revenue Audit both in the junior administrative grade were to be created in the Headquarters Office with necessary supporting staff. The SAS Accountants in Railway Audit, Defence Audit, Posts and Telegraphs Audit, Commercial Audit and Supply Audit branches who were desirous and willing to be drafted to Civil Audit and Accounts Offices for doing revenue audit work were to be given training in the field of Central and State Revenue Audit and allowed to sit for the Revenue Audit Examination for SAS Accountants in the Civil Accountants General offices.

IMPACT

As a result of the implementation of the recommendations of the Committee and the changes in the scope and coverage of Revenue Audit - both in the States and in the Centre, the strength of the revenue audit department increased to 3249 in 1975 - 1773 in Central Receipts (313 AOs, 815 SOs, 645 Auditors) and 1476 in State Receipts (175 AOs, 678 SOs and 623 Auditors). Three fold increase in the organisation of State revenue audit was due to dejure recognition given to revenue audit by CAG under the Act, which forced the States, who were dragging their feet all along to comply with statutory requirements.

In the Headquarters Office, a separate ADAI (Revenue Audit) was appointed for overseeing the Central and State receipts and formulating policy, co-ordination and issuing directions and ensuring technical guidance to the field offices. The DRA functioned as the Principal Audit Officer. Two Jt. Directors in the junior administrative grade for Central Receipt Audit and one Joint Director for State Receipt Audit wing in the Headquarter's office were also inducted with necessary supporting staff. Only two officers held the post of ADAI (Revenue Audit) and the last incumbent was Shri Y. Krishan. Thereafter, DRA continued to head the Revenue Audit group in Headquarter.

The sanctioned strength of the Receipt Audit Wing in 1975, was 3249 - 488 audit officers, 1493 section officers and 1268 auditors - 1773 for auditing Central Receipts on the Union Government, *i.e.* Direct Taxes, (212 parties comprising 230 AOs, 502 SOs and 386 auditors), Indirect Taxes, Customs (22 parties, 7 AOs, 39 SOs and 31 auditors) and Central Excise (127 parties, 76 AOs, 274 SOs and 228 auditors) - and 1476 for auditing Revenue Receipts of the various State Governments (310 parties, 175 AOs, 678 SOs and 623 auditors) and deficiency in working strength was about 17 per cent.

The Committee constituted by the CAG in May 1979 recommended that in view of the magnitude and importance of income tax, central excise and customs receipts, the complexities involved in their audit, the staff employed on the audit of these receipts by the DA, Central, Calcutta and Bombay and the number of charges of Commissioners of Income Tax, Collectors of Central Excise and Customs dealt with by them, these offices could be bifurcated and separate offices under an Accountant General at Calcutta and Bombay for audit of income tax receipts can be formed. Consequently the DA, Central, Calcutta and Bombay could be left to attend to the residuary work now handled by them. Wherever the staff was borne on common cadres, the cadre management remained with the senior Accountant General of the state as at present. Rationalisation of supervisory charges as a part and parcel of the proposed scheme of reorganisation on the norms suggested by the Committee for different group charges in Civil Audit and Accounts Offices broadly were recommended. The Committee also suggested a yardstick of 20 to 25 parties in Central Receipt Audit and 30 to 35 parties of State Receipt Audit for group supervision and recommended augmentation of group charges in the offices of Accountants General, Andhra Pradesh, Meghalaya and Mizoram, Bihar at Ranchi, Gujarat at Ahmedabad, Haryana, Karnataka, Kerala and Rajasthan. Implementation of some of these measures and augmentation of officers and staff based on work load increased the sanctioned strength to 4356 by 1980. The total strength of the wing was 4356 - 2447 for audit of Central Receipts, (275 parties, 292 AOs, 654 SOs and 505 auditors for audit of Direct Taxes, 17 parties, 13 AOs, 57 SOs and 28 Auditors for Customs and 201 parties, 119 AOs, 453 SOs and 376 auditors for audit of Central Excise) and 1909 for audit of Revenue Receipts of State Governments (419 parties, 249 AOs, 963 SOs and 677 auditors). The deficiency in the working strength was about 11 per cent only. A separate Directorate for audit of Indirect Taxes was created from 1st February, 1984 and Shri N. Sivasubramanian was appointed, who was also entrusted with the Report work relating to certain States. In 1985, the sanctioned strength was 4771, 2620 (287 parties, 310 AOs, 702 SOs/AAOs and 542 auditors) for auditing Direct Taxes and (202 parties, 146 AOs, 541 AAOs/SOs, 379 auditors) for auditing Indirect Tax and 2151 for auditing the Revenue Receipts of the State Governments (474 parties, 281 AOs, 1117 AAOs/SOs and 753 auditors. 90% of the sanctioned strength was in position - 686 audit officers, 2028 AAOs/SOs, and 1002 auditors. By March 1988, the strength increased to 5194 and deficiency in working strength was 8 per cent only. The sanctioned strength of Central Receipt Audit wing was 2948 - audit of Direct Taxes - 306 AOs, 672 SOs/AAOs and 961 auditors, distributed over 283 parties, audit of Customs - 32 AOs, 100 SOs/AAOs and 68 auditors (6 parties) and audit of Central Excise - 154 AOs, 494 SOs/AAOs and 355 auditors (203 parties). The sanctioned strength of State Receipt Audit wing was 2246 - 309 AOs, 1123 AAOs/SOs and 814 auditors distributed over 470 parties.

RESPONSE TO OBJECTIONS

According to the latest Audit Report, under Central Excise 6055 objections raised in 32 Collectorates upto March 1987 with a monetary effect of Rs. 357.53 crores was outstanding settlement on 30th September, 1987. 28 per cent of the outstanding objections were due to non-levy of duty, 12 per cent due to short levy of duty on account of incorrect grant of exemption and 11 percent on account of short levy due to undervaluation and 30 per cent due to other reasons. Under Customs, objections with a tax effect of Rs. 3769.59 lakhs were outstanding. Bulk of them were on account of short levy due to misclassification, incorrect grant of exemption, under-valuation and non-levy of import duties including import of baggages.

In the Income Tax Department, 1897 objections involving Rs. 299.55 crores were outstanding on 31st March, 1988, 42.9 percent objections with 23.5 per cent monetary value related to periods prior to March, 1983, which have been repeatedly reported in every year's Audit Report. In 14 charges of CITs, 226 individual cases exceeding Rs. 10 lakhs were pending. In addition, 10523 cases of internal audit objections involving Rs. 299.55 crores were outstanding in the various offices of the Income Tax Department.

CONTRIBUTIONS FOR REPORTS

The contribution made by the Principal Audit Officers, including the Headquarter office for the Audit Reports on Direct and Indirect Taxes for the years 1982-83 to 1987-88 are given in the following tables:—

Indirect Taxes

Sl. No.	Principal Audit Officers	Year-wise contribution on *Customs* for Audit Reports Central Excise (Number of paras (Ps) and total under-assessment (TUA).											
		1987-88		1986-87		1985-86		1984-85		1983-84		1982-83	
		Ps	TUA	Ps	TUA	Ps	TUA	Ps	TUA	Ps	TUA	Ps	TUA
1.	DA (C), Bombay	28	66	12	30	23	40	27	41	36	25	29	20
		20	17	21	25	40	24	26	13	75	15	73	26
2.	DA (C), Calcutta	19	31	19	17	18	18	17	20	15	17	11	4
		61*	19	81	16	74	22	50	26	57	24	45	21
3.	AG (Au) II, Tmail Nadu	21	82	27	93	25	76	28	42	25	31	25	22
		26	15	33	48	28	27	28	20	29	18	24	18
4.	AG (Au), Karnataka	1	1	1	-	-	-	-	-	-	-	-	-
		25	10	16	32	17	12	17	7	11	4	6	-
5.	AG (Au), Uttar Pradesh	1	2	2	3	1	2	4	1	2	1	1	-
		13	5	11	9	16	10	12	9	17	20	22	19
6.	AG (Au), Haryana	-	-	1	-	-	-	-	-	-	-	-	-
		10	5	9	11	12	14	10	11	14	8	7	9
7.	AG (Au), Gujarat	4	5	6	1	2	2	2	-	2	2	1	-
		14	2	14	11	12	13	7	8	9	14	10	9
8.	AG (Au), Punjab	2	-	-	3	-	-	2	1	-	-	1	-
		6**	4	5	6	11	8	8	8	6	7	6	7
9.	DACR. I, New Delhi	5	13	5	41	7	26	3	28	5	17	2	13
		4	-	2	3	2	3	4	5	5	2	10	9
10.	AG (Au)-II, Bihar	1	-	-	-	-	-	-	-	-	-	-	-
		3	2	4	12	8	5	4	2	7	1	2	2
11.	AG (Au)-II, Madhya Pradesh	1	1	-	1	1	-	1	-	-	-	-	-
		9	4	11	6	16	3	8	2	14	3	-	8

		1987-88 Ps	1987-88 TUA	1986-87 Ps	1986-87 TUA	1985-86 Ps	1985-86 TUA	1984-85 Ps	1984-85 TUA	1983-84 Ps	1983-84 TUA	1982-83 Ps	1982-83 TUA
12.	AG (Au), Mah., Nagpur	-	-	-	-	-	-	-	-	-	-	-	-
		8	4	5	4	5	2	-	7	1	3	-	3
13.	AG (Au), Haryana and Chandigarh	-	-	1	-	2	2	-	-	-	-	-	-
		-	-	-	-	1	1	-	-	-	-	-	-
14.	AG (Au), Andhra Pradesh	-	1	-	1	1	-	1	-	-	-	-	-
		11**	10	11	7	15	5	11	9	16	7	19	13
15.	AG (Au), Orissa	-	-	2	-	-	2	-	-	-	-	-	-
		3	2	2	4	2	3	1	-	4	-	3	3
16.	AG (Au), Rajasthan	5	1	2	1	3	-	4	1	2	2	2	2
		4	1	5	4	8	6	14	4	5	7	7	7
17.	AG (Au), Jammu & Kashmir	-	-	-	-	-	-	-	-	-	-	-	-
		-	1	1	-	-	-	-	-	-	-	-	2
18.	AG (Au), Assam	-	-	-	-	-	-	-	-	-	-	-	-
		-	1	1	1	-	-	-	-	1	-	1	-
19.	AG (Au), Kerala	7	6	3	11	4	11	6	3	4	1	1	2
		2	3	1	2	6	3	2	3	8	5	9	-
20.	Headquarters	2	-	-	-	3	-	2	3	4	-	-	-
		1	-	1	-	1	-	1	-	5	-	3	-
21.	AG (Au), Himachal Pradesh	-	-	-	-	-	-	-	-	-	-	-	-
		3**	1	2	4	4	3	3	3	3	5	2	2
	Total	97	209	81	202	90	179	97	140	95	96	73	62
		223@	106	236	205	278	164	206	137	287	143	249	159

* Includes 6 reviews.
** Includes 1 review.
@ Includes 9 reviews.

Direct Taxes

Principal Audit Officers	1981-82						1982-83						1983-84						1984-85					
	C		I		O		C		I		O		C		I		O		C		I		O	
	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M
DA, Calcutta	1	33	2	3	0	7	5	43	0	3	0	11	4	53	0	6	0	17	1	96	0	14	1	22
DA, Bombay	1	24	1	8	0	10	0	33	2	6	0	7	4	56	1	16	0	7	1	88	1	18	1	14
DA, C.R.	0	1	0	1	0	1	0	5	1	3	0	1	0	6	0	6	0	2	0	11	0	2	0	2
AG, A.P.	0	2	2	1	1	1	1	4	1	7	1	3	0	5	0	10	0	6	0	3	0	9	1	9
AG, Bihar	2	2	0	0	0	0	0	2	0	0	0	0	0	1	0	2	0	0	0	2	0	5	0	2
AG, Gujarat	0	4	0	3	1	11	1	5	1	7	1	9	1	14	2	6	1	9	2	12	0	10	0	0
AG, Haryana	0	0	0	0	0	1	0	0	0	1	0	0	1	1	0	1	0	0	1	6	0	1	0	1
AG, H.P.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	1	0	2	0	0	0	0	0	0
AG, J&K	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
AG, Karnataka	0	5	0	9	0	5	0	6	0	2	0	3	0	22	0	12	1	4	2	13	1	21	0	10
AG, Kerala	0	2	0	0	0	3	1	1	1	1	0	4	0	1	0	2	0	5	0	4	0	7	1	6
AG, M.P.	0	3	2	2	0	12	1	3	2	6	1	3	1	6	0	3	0	15	0	6	1	13	1	11
AG, Orissa	0	0	0	2	0	0	0	2	0	1	0	1	0	0	0	0	0	0	0	3	0	0	0	1
AG, Punjab	0	0	0	0	0	1	0	2	1	1	0	2	0	1	0	1	0	4	0	7	0	4	0	0
AG, Rajasthan	0	3	1	1	0	2	0	1	0	1	0	4	0	2	0	5	0	5	0	3	0	3	0	5
AG, T.N.	1	9	3	13	1	5	1	15	0	7	2	7	3	34	1	17	0	13	2	79	0	28	0	22
AG, U.P.	0	3	0	2	3	9	0	1	1	5	1	6	0	3	0	3	0	5	0	6	0	9	0	4
AG, Assam	0	0	0	0	0	0	0	0	0	0	0	0	0	3	0	3	0	1	0	0	0	2	0	3
HQ's Office		0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
Total	5	91	11	45	6	68	10	123	10	51	6	62	14	208	5	94	2	95	9	339	3	146	5	112

C : Corporation Tax
P : Para
I : Income Tax
M : Material for common para
O : Other Direct Taxes

Principal Audit Officers	1985-86						1986-87						1987-88					
	C		I		O		C		I		O		C		I		O	
	P	M	P.	M	P	M	P	M	P	M	P	M	P	M	P	M	P	M
DA, Calcutta	4	134	0	10	2	10	6	108	1	11	0	10	6	109	2	9	1	16
DA, Bombay	4	86	1	24	0	11	3	77	0	19	0	3	4	92	2	14	1	10
DA, C.R.	1	7	1	5	0	0	1	17	0	2	0	1	0	14	0	0	0	1
AG, A.P.	0	7	0	8	0	7	0	8	2	2	0	9	1	5	1	8	0	4
AG, Bihar	0	4	0	8	0	1	1	4	0	4	0	1	0	8	0	4	0	2
AG, Gujarat	0	13	0	11	0	5	0	3	2	8	1	5	0	13	1	13	2	1
AG, Haryana	0	5	0	5	0	1	0	1	0	0	0	0	0	7	1	4	0	3
AG, H.P.	0	5	0	1	0	0	0	0	0	1	0	0	0	1	0	2	0	1
AG, J&K	0	0	0	0	0	0	0	0	1	1	0	0	0	0	0	0	0	0
AG, Karnataka	0	24	0	29	0	16	1	17	3	21	0	9	2	14	5	13	0	3
AG, Kerala	0	3	0	11	0	3	0	5	0	4	1	3	0	6	1	5	0	4
AG, M.P.	0	6	4	19	0	10	0	10	0	6	0	8	0	8	2	9	1	8
AG, Orissa	0	0	0	2	0	0	0	0	0	1	0	0	0	2	0	0	0	1
AG, Punjab	0	3	0	0	0	0	0	4	0	5	0	5	1	1	0	5	0	3
AG, Rajasthan	0	5	0	4	0	4	0	4	0	4	1	3	0	9	0	2	0	3
AG, T.N.	7	52	3	52	2	24	4	53	4	30	2	15	4	39	2	24	0	16
AG, U.P.	1	16	1	10	0	5	0	7	0	4	0	5	0	2	0	5	0	1
AG, Assam	0	0	0	4	0	2	1	1	0	4	0	4	1	2	0	2	0	0
HQ's Office	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0
Total	17	370	10	203	4	99	17	319	13	127	5	81	19	332	17	119	5	77

C : Corporation Tax I : Income Tax O : Other Direct Taxes

While the aggregate number of paras contributed for each year's AR was on the higher side, the Report branch in the Headquarters Office converted them into smaller number of paras for an year's Report by integration, collation, condensation, and editing, and issued them as such to the Ministry of Finance, Department of Revenue/CBDT and obtained their reaction before finalising the Report for approval of the CAG. The work involved in the transformation of material on audit findings is tremendous and time consuming but was carried out under great pressure because of the limited time available for completing all the formalities and getting the Report printed in time to be sent by February/March for being laid before the Parliament and the credit for this entirely goes to the Directors and their devoted team of officers and staff of the Revenue Audit Wing.

ACCESSIBILITY TO RECORDS

The CBDT had issued instructions as early as 1968 to make every effort to produce records required by the Revenue audit parties to facilitate smooth audit and if a particular record could not be made available, reasons for non-presentation should be explained to them and no records should be withheld on inadequate grounds. In view of Section 18 of the CAG's Act, the Department recognised that it would not be proper to withhold records called for by Audit in the performance of statutory duties and the Revenue audit parties could bring to the notice of the Commissioner of Income Tax any failures in this regard for taking necessary action and when any difficulty was experienced in obtaining the relevant files/records the field offices reported to the DRA, who took the matter with the CBDT and CBEC as the case may be. However, two specific instances surfaced, which broke the convention and threatened to undermine the whole system. The files leading to the issue of certain notification regarding excise duty on semi finished steel product, which were not made available despite personal approach to the Chairman, CBEC, and ultimately a para was issued based on published notification and audit interpretation thereon. The para appeared in Audit Report 1979-80, as under:

(i) *Semi finished Steel Products* "Under the fourth proviso to a notification dated 18th June, 1977 as amended on 15th July, 1977, a set-off of duty of Rs. 330 per metric tonne was allowed on semi finished steel products (tariff item 26AA) manufactured with the aid of power from the specified raw materials as against the following effective rates of duty :

Sl. No.	Description	Rate of duty (Rs.)
1.	all forms of semi finished steel falling under sub-item (i) of item 26AA,	300
2.	all products falling under sub-item (ia) of item 26AA (other than rails and sleeper bars specified in serial No.(3)	330
3.	rails and sleeper bars	175
4.	steel castings	260

By another notification dated 20th January, 1979, the aforesaid fourth proviso was amended whereby, *inter alia,* the substantive portion namely, the duty specified against the corresponding entries in column (3) of the table shall be reduced by three hundred and thirty rupees per metric tonne" was omitted. Subsequently, the said proviso was deleted by virtue of a notification dated 9th April, 1979. Thus, during the period 20th January, 1979 to 8th April, 1979, there was no valid legal sanction for the set off of duty. It was noticed in test audit that 28 units in 18 collectorates were nevertheless allowed reduction of Rs. 1.49 crores in duty during the said period. The paragraph was sent to the Ministry of Finance in September 1980 but there was no reply till December 1980.

The PAC was not satisfied by the evidence given for the omission and desired the Ministry of Finance to give full information, as to how the mistake occurred, where and at what level it came to notice in the Board's office, if at all, and why no action was taken to rectify the omission. There was a failure on the part of the Collectors also, who allowed duty exemption without noticing the actual provisions of the notification. The case brought into focus the weakness in the system existing in the Ministries of Finance and Law for drafting and scrutiny of notifications. Although the Ministry of Finance tried to explain that the notifications were drafted and checked at various levels in that Ministry, as well as in the Ministry of Law, the instant case clearly showed that the scrutiny was not done with adequate care. The Committee desired the Ministry of Finance to devise an effective system for drafting and scrutiny of notifications particularly in the case of exemption notifications, which were issued under the extraordinary powers, which vested in the executive prior to grant exemption from the levy of duties, specified and approved by Parliament. Out of the four notifications referred to in the Audit para the Committee found that one notification*, was not free

* 235/77 dated 5th July, 1977.

from ambiguity. Under this amending notification a set-off of duty of Rs. 330 per metric tonne was allowed on semi-finished steel products (tariff item 26AA) against the effective rates of duty of Rs. 175 per metric tonne for "rails and sleeper bars" and Rs. 2.00 per metric tonne for "steel castings". This notification did not make it clear, whether in the case of "rails and sleeper bars" and "steel castings" the set-off would be limited to the effective rates of duty or would be allowed at the rate of Rs. 330 per metric tonne. The Committee were not satisfied with the reply of the Ministry, that "since the amount of duty reduction spelt out in this proviso (as amended on 15th July, 1977) was more than or equal to the rates of duty specified in the Table annexed to notification No. 152/77- CE the effect was to grant full duty exemption to the products in question". Equally unsatisfactory was the reply, that the reduction in duty was so specified to make it applicable to the semis/products manufactured by integrated steel plants and mini steel plants" as a matter of convenience. Apparently, adequate care was not exercised at various levels in the Ministry of Finance as well as the Ministry of Law in the drafting of notifications. The Committee would like these observations to be brought to the notice of all concerned so that issue of faulty or ambiguous notifications, as has happened in the case cited in this para was obviated.

The PAC 1981-82 (Seventh Lok Sabha) looked into the presentation of files to Audit and recommended* as under :

"As per instructions issued by the Ministry of Finance (Department of Revenue and Expenditure) in a letter dated 6th January, 1955, files required by Audit Officers are to be readily made available to them and "secret" or 'top secret' files should be sent personally to the Accountant General or the head of the Audit Office who would then deal with it in accordance with the standing instructions for the handling and custody of such documents. These instructions were reiterated in a letter dated 23rd September, 1978 issued by the Ministry of Finance (Department of Economic Affairs). Budget files are as per practice treated as secret till the time of presentation of the budget but whether such files continue to remain "secret" even after the presentation of budget is a matter which needs to be reviewed. The Chairman, Central Board of Excise and Customs seemed to suggest during evidence that such files may contain information which continues to be secret even after the presentation of the budget. The instructions issued on 6th January, 1955 as also on 23rd September, 1978 apply to all files

* Paras 1.47 to 1.52 of 67th Report (7th Lok Sabha) presented on 24th December, 1980.)

including "secret" and "top secret" files and do not thus exclude budget files. Therefore, after the presentation of the budget even such files cannot be withheld from Audit in cases where Audit specifically requires their production. The Committee would strongly urge upon the Ministry of Finance that these instructions should be observed in letter as well as in spirit". The recommendation was not accepted and the PAC was informed with the approval of the Finance Minister. Simultaneously, based on the views tendered by the Attorney General, the Finance Secretary along with other Secretaries in the Ministry of Finance sought to discuss with CAG the need to formulate norm for future. Neither any discussion took place nor new norms were formulated because of the firm and principled stand taken by Shri T.N. Chaturvedi based on past practice and conventions built up since independence, discussed in Vol. I.

The second case related to records and statistics required for reviewing the functioning of CIT (Appeals) Valuation Cell and the IAC (Assessment) in 1987, which were refused by certain field formations, citing Board's instructions issued in January 1987 not to provide them directly but suggested to obtain them from the Board. When the impropriety in withholding the records was pointed out by the DRA, the Chairman, CBDT agreed to revise the instructions, which were not actually withdrawn. The CAG himself took up the matter with the Finance Secretary and the Revenue Secretary, pointing out the scope of audit and the statutory right to have full access to the Government records, as clearly laid down in Section 16 of the CAG's Act 1971, which had already been recognised by the Government and acted upon by the CBDT earlier and suggested withdrawal of the instructions and issuing necessary directions for furnishing the information and records required by the audit parties for discharging their statutory functions. The CBDT issued instructions to field formations to make available the relevant records and information. However, the Secretary, Revenue Department indicated that it would be administratively convenient for CBDT to provide certain information called for in respect of certain subjects (which were relevant for the studies initiated by Audit) instead of supplying them by the field offices, to avoid duplication of work. Meanwhile, a review on Central Information Branch taken up in 1988 with a view to finding out their performance and the utility of information collected by them, was hampered due to denial of records and statistical information to the field parties based on instructions issued by the Central Board of Direct Taxes. The CAG, however, stuck to the stand already taken by him regarding the scope of Section 18 of CAG's Act, which gave his organisation complete and unrestricted authority to call for documents or information to "such a place as he may appoint for his inspection" and stressed that any instructions, which even by indirect implication prohibited the production of any information to Audit at the place of inspection would be contrary to the spirit of the statutory provision and any kind of blanket restriction would be difficult to accept. The earlier instructions to the CIT/local offices were amended, directing them to supply the information at their level. Such obstructions and subsequent dialogue and correspondence were occasional dilatory games played by the executive departments, not known to others outside the limited circle of correspondence, to frustrate initiatives of Audit to unearth revealing disclosures hidden in the jungle of statistics and information shrouded in secrecy, which take a heavy toll of the stipulated time for conducting a review at all-India level, not to speak of the avoidable strain and pressure on field parties to the detriment of the object and purpose of statutory audit, with no benefit either to the auditee or to the system of accountability prevalent in Government.

REPORTS ON INDIRECT TAXES

Audit Reports were issued in 2 volumes from 1971-72 onwards, Volume I - Indirect Taxes incorporating comments on Central Excise and Customs and Volume II containing comments on Direct Taxes. Volume I contained two chapters and 52 paras, which included 37 effective paras - 21 on Excise and 16 on Customs, and Volume II, four chapters and 59 paras, of which 42 were effective paras. 1986-87 Report, Volume I had four chapters and 105 paragraphs covering 155 pages, which contained 42 substantial comments and 2 reviews on Central Excise and 37 comments, including 3 reviews on Customs and Volume II had six chapters and 189 paras of which 147 were substantial comments, including 4 reviews on 215 pages. The average number of pages of Volume I Reports issued upto 1986-87 was 143 and paras 97 - 65 on Central Excise and 32 on Customs. 1983-84* Report contained 253 pages, the biggest so far, which had 52 effective paras, including 5 reviews. The Audit Reports were finalised in twelve months' time, except 1977-78 and 1985-86 Reports, which were finalised 13 months after the financial year. 26 years' Reports contained 1890 paras - 665 paras on Customs, including 14 reviews and 1225 paras on Central Excise, including 17 reviews.

The first review on Central Excise appeared (in 1976-77 Report) on Iron and Steel and products thereof (Tariff item 25, 26, 26-AA) and since then reviews featured regularly in each year's Reports, except in 1982-83

* Signed by Shri N. Sivasubramanian and countersigned by Shri T.N. Chaturvedi on 25th April, 1985.

and 1984-85 Reports. The maximum number of reviews - five - apeared in 1983-84 Report. The last five years' Reports featured reviews on price lists, inordinate delay by public sector banks in remitting union excise duty collections, delay in finalisation of provisional assessments, delay in vacation of stay-orders from courts, delays in approval of price-lists under the self-removal procedure, delay in filing of excise returns under self-removal procedure, accounting of excise duty receipts under the self-removal procedure, valuation cells, impact of reduction in duty on prices of refrigerators and tyres, short levy of cess by Rubber Board, delay in submission of monthly returns and reconciliation of revenue receipts, integrated factories, cotton textiles, tyres, scheme of duty relief to encourage higher production, patent or proprietory medicines and iron and steel products thereof (Tariff item No. 25, 26, 26AA). AR 1981-82 contained the first reviews on Customs - Duty on passenger baggage, DEEC Scheme and delay in finalisation of provisional assessment. There were three reviews each in last two years' Reports, namely, hundred per cent export oriented units, working of procedure relating to disposal of uncleared and unclaimed goods, foreign travel tax, inland container depots at Bangalore and Delhi, working of inland customs bonded warehouses and delay in disposal of confiscated goods.

AUDIT REPORT 1987-88

The latest Report* contained 141 paras including 3 reviews; - 62 on Customs receipts and 79 on Central Excise duty. 99% was responded to by the Department/Government. The receipts increased by 16.3% - on Customs, 17.6% on Union Excise duties 15% - and the cost of collection was 0.94% customs receipts and 0.69% Central excise. The tax and non-tax receipts of the union territories without Legislatures increased by 14%. Under-assessment of tax and loss of revenue of Rs. 141.78 crores - Customs receipt Rs. 9.72 crores and Union Excise duties Rs. 132.06 crores was detected during test check of which Rs. 37.64 crores had already been accepted by the Ministry of Finance. Under assessments of stamp duty and registration fee, forest receipts and entertainment tax detected in Chandigarh, Dadra and Nagar Haveli and Daman and Diu amounted to Rs. 1.11 lakhs. 9,908 objections raised in audit upto 31st March, 1987 with revenue effect of Rs. 395.43 crores was pending settlement as on 30th September, 1987, which pointed out the need for greater compliance in their settlement, in view of Government's drive to raise resources.

* No. 5 of 1989 finalised on 13th April, 1989 and presented to Parliament on 10th May, 1989.

SYSTEMS APPRAISAL

(i) The working of Manifest Clearance Department of the various Customs Houses and Air Customs collectorates disclosed lack of effective follow up action to obtain import general manifests from the Import department. For example, in Madras Customs House 1,123 import general manifests pertaining to the years 1982 to 1986 were not sent by the Import department to Manifest Clearance Department even by the end of 31 December 1987; 14,022 import general manifests were pending closure as on 31 December, 1987 out of which 3,603 import general manifests were pending for more than two years, and 3,608 letters of calls had not been issued to the steamer agents till 31 December, 1987 for initiating penal action. There was lack of coordination between Customs Department and Port Trust authorities leading to delay in receipt of out-turn statements from Port- Trust - 1,146 nos of out-turn statements from Bombay Port Trust for the years 1981 to 1986 and another 884 nos. of out-turn statements from Madras Port Trust for the years 1985, 1986 and 1987 were not received till 31 December 1987. 1,175 penalty cases were pending finalisation, 643 cases pertained to Calcutta, 204 cases to Madras and 175 cases to Bombay Custom Houses, and that there was delay in closure of export general manifests. In Madras Custom House alone 13,834 export general manifests for the years 1984 to 1987 were pending closure on 31 December, 1987. Lack of control by the Customs Department over the quantum of short or excess landed goods/uncleared goods and about the magnitude of customs duty liability/penalty realisable thereon was evident.

(ii) Review of provisionally assessed cases in 17 Customs Houses/ Collectorates brought out that 25,151 cases assessed provisionally upto 31 March, 1987 could not be finalised till 31 March 1988. The finalisation of provisional assessment cases did not keep pace with the fresh cases in which provisional assessments were resorted to in the year 1986-87, which led to increase in provisional assessment cases from 13,668 at the beginning of the year to 17,113 at the end of that year. Cases of non-finalisation/delay in finalisation of provisional assessment cases involving test bonds, improper maintenance of provisional Duty Register leading to non-finalisation/delay in finalisation of provisional assessment cases, omission to review the register by the departmental officers and review of provisional assessment cases by the Internal Audit department were noticed. 11,817 files relating to provisional assessment cases pending in Bombay Customs House to Audit were not produced for audit.

(iii) An appraisal of the adjudication cases pending with the Courts, CEGAT and the departmental officers disclosed that there were 7631 appeal cases in which confirmed demands amounting to Rs. 419.61 crores were pending realisation on 31 March, 1988. Of these, 4643 cases (Rs. 320.54 crores) were pending with the Courts, 1929 cases (Rs. 77.58 crores) with CEGAT and 1059 cases (Rs. 21.49 crores with the departmental officers; revenue amounting to Rs. 46.36 crores was lost due to non-issue or delay in issue of show cause notices; duty amounting to Rs. 307.64 crores could not be recovered owing to grant of stay orders by the various courts in 3,373 cases; failure of the department to recover duty of Rs. 12.90 crores in 1270 cases even though the court did not grant stay orders in those cases; non-realisation of confirmed demands amounting to Rs. 4.28 crores adjudicated during the year 1985-86 to 1987-88 in Jaipur Collectorate and non-maintenance of records.

CUSTOMS RECEIPTS

Short levy of Customs duty due to misclassification of imported goods was noticed in a number of cases amounting to Rs. 332.15 lakhs and Rs. 324.67 lakhs were accepted by the Ministry of Finance/Collectors of Customs. Misclassification of two consignments of complete railway brake down crane (self propelled power crane operated on rails), resulting in short levy of duty of Rs. 290 lakhs and 'Seamless stainless steel U tubes, cold finished (Tube bundle for heat exchange)' as parts of 'heat exchanger' instead of as 'metal tubes and pipes of base metals' resulting in short levy of Rs. 19.66 lakhs were major items commented upon. Non/levy/short/levy of import duties amounting to Rs. 133.39 lakhs was noticed in a number of cases of imports in audit and Rs. 7.69 lakhs were accepted by the Ministry of Finance/Customs Collectorate. Assessment of auxiliary duty at rates lower than those applicable to project imports resulting in non-levy of auxiliary duty of Rs. 81.83 lakhs, clearance of drawings imported as 'charts and plans' without levy of auxiliary duty of Rs. 18.57 lakhs, and non-levy of countervailing duty of Rs. 7.63 lakhs on 'Colour Scanner' and 'electron guns' were the important cases reported. Short levy due to undervaluation amounting to Rs. 48.78 lakhs on account of incorrect valuation of goods was noticed and Rs. 4.61 lakhs was accepted by the Ministry/Collectorate. Short levy of duty due to incorrect grant of exemption amounting to Rs. 34.68 lakhs was noticed, of which Rs. 28.88 lakhs were accepted by the Ministry of Finance. Non-collection of countervailing duty of Rs. 5.99 lakhs on the components of hydraulic rough terrain crane cleared from a warehouse, and levy of incorrect basic customs and auxiliary duties on a consignment of components of forklift truck resulting in short levy of duty and interest amounting to Rs. 6.42 lakhs, were the important comments.

Application of incorrect rate of duty in five cases resulted in short levy of duty amounting to Rs. 20.03 lakhs, of which Rs. 11.21 lakhs were accepted by the Ministry of Finance. Clearance of five consignments of pulses as duty free instead of charging duty at 25 per cent *ad valorem* prevalent on those dates resulting in short levy of duty of Rs. 9.91 lakhs and short payment of basic customs and auxiliary duties amounting to Rs. 8.82 lakhs on a hundred per cent export oriented unit were the specific cases cited. Short levy of duty amounting to Rs. 16.68 lakhs due to mistakes in computation or collection - two cases - in one case the countervailing duty was short paid by Rs. 15.47 lakhs mainly due to mistakes in computation and in the other case Rs. 13,476 only was collected against the assessed duty amount of Rs. 1,34,758, resulting in short payment of duty by Rs. 1.21 lakhs were noticed. Under duty exemption entitlement certificate scheme, three cases of short levy of duty amounting to Rs. 314.74 lakhs were noticed - unauthorised diversion and sale of imported raw material involving duty of Rs. 233 lakhs in the domestic market by producing forged documents in regard to fulfilment of export obligation to the customs department by an assessee and two cases of irregular clearance of three consignments imported against open general licence wharehoused under bond without payment of duty amounting to Rs. 81.74 lakhs. Two yachts built in bond with imported raw materials for export was sold within the country by treating the sales as deemed exports, exemption of customs duty was allowed which resulted in short collection of excise of Rs. 14.04 lakhs. Incorrect rate of duty vis-a-vis date of clearance from warehouse resulting in short collection of Rs. 5.32 lakhs on the clearance of six consignments of warehoused goods and incorrect rate of duty vis-a-vis date of entry inwards of the vessel resulting in short collection of Rs. 9.12 lakhs in two cases were pointed out.

CENTRAL EXCISE DUTIES

Non-levy of duty under the Central Excise Rules amounting to Rs. 35.49 crores were pointed out in audit, of which the Ministry of Finance and the Central Excise department had already accepted Rs. 18.93 crores. Cases reported under excisable goods captively consumed were non-payment of duty of Rs. 12.96 crores during the years 1984-85, 1985-86 and 1986-87 by manufacturer, who produced alkali cellulose and used it in the manufacture of viscose filament yarn, non-payment of duty of Rs. 3.15 crores during the period from 28th February, 1986 to 12th November, 1986 by twenty four cement manufacturers, who brought lime stone from the quarries, powdered it and used it captively in the manufacture of clinkers and cement, manufacture of packed tea/tea bags by eight manufacturers of packed tea, who brought duty paid loose tea from different tea gardens, blended it and used the blended tea captively without payment of duty of Rs. 1.71 crores during the period from 1 March 1986, to 28 February, 1987. Manufacture of ingots, moulds and bottom stools without payment of duty of Rs. 45.37 lakhs by an integrated factory, which produced pig iron/molten iron and consumed it captively during the period from 1st November, 1983 to 30 September, 1984 and the Central Excise department accepted the objection and raised demands for Rs. 1.43 crores covering the period from 1 August, 1983 to 30 April, 1986. An assessee produced lime fine from lime stone and used such lime internally in the manufacture of sinter without payment of duty of Rs. 1.27 crores during the period from 28th February, 1986 to 28th February, 1987. Sixteen textile mills and a yarn mill manufactured cotton yarn in the form of cones, cheese and bobbins and converted them into hanks without payment of duty of Rs. 72.22 lakhs during the period from September, 1983 to July, 1987. Two cases of exciseable goods cleared as non-excisable were reported - fiftythree ship breakers obtained iron and steel products by breaking up of ships and other floating structures and cleared them without payment of duty of Rs. 7.41 crores during the period from November, 1985 to August, 1986. Three units cleared one barge each during the period from April, 1986 to March, 1987 without payment of duty of Rs. 38.10 lakhs. Duty amounting to Rs. 19.18 lakhs was not demanded from three assessees on account of transit storage losses and wastes, which were accepted by the Ministry of Finance. Under irregular clearances allowed without levying duty, a case of manufacturer, who treated cotton yarn as semi-finished goods and cleared it without payment of duty of Rs. 18.88 lakhs during the period from April, 1986 to November, 1986 and another case of two manufacturers of jute bags and a manufacturer of jute sacking cloth who cleared their products without payment of duty of Rs. 15.47 lakhs during the periods from 22 July, 1982 to 25 July, 1984 and 28 February, 1986 to 23 April, 1986 were reported. Three manufacturers suppressed the production of excisable goods leading to non levy of duty of Rs. 12.82 lakhs. The Ministry of Finance had accepted all these objections.

The short levy of duty of Rs. 19.47 crores due to misclassification of excisable goods in a number of cases was reported, of which the Ministry of Finance and the Central Excise department had already accepted Rs. 4.53 crores. Important cases were, misclassification of S.R. Naphtha by a public sector oil refinery as mineral oil suitable for use as fuel for internal combustion engine, which resulted in short levy of duty of Rs. 13.31 crores during the period from April, 1985 to February, 1986; misclassification of blended yarn by a manufacturer as 'not containing any man-made fibres of non cellulosic origin' which resulted in short levy of duty of Rs. 1.49 crores during the period from 1st August, 1985 to 3rd January, 1988; misclassification of the cut and processed waste as non-cellulosic waste by a manufacturer of polyester fibre which resulted in short levy of duty of Rs. 1.19 crores during May, 1982 to March, 1984; misclassification of speciality oil as furnace-oil by a tube blending unit of a public sector undertaking resulting in short levy of duty of Rs. 51.88 lakhs during the period from March, 1986 to February, 1988; misclassification of dead burnt magnasite and calcined magnasite by two assessees leading to short levy of duty of Rs. 45.69 lakhs during the period from March 1986 to September, 1987; misclassification of paper laminates and glass fabrics laminates as electrical insulators by a manufacturer, which resulted in short levy of duty of Rs. 34.45 lakhs from 1st March, 1986 to 18 May, 1987; misclassification of parts of cranes as cranes by a public sector undertaking leading to short levy of duty of Rs. 24.60 lakhs during the period from April, 1986 to February, 1987; and misclassification of lime as an organic chemical which resulted in short levy of duty of Rs. 17.74 lakhs by an assessee during the period from March 1986 to February, 1987.

SHORT LEVY OF DUTY DUE TO UNDERVALUATION

Short levy of duty of Rs. 7.00 crores on account of incorrect valuation of goods was pointed, out of which Rs. 3.53 crores was accepted by the Ministry of Finance/the Central Excise Collectorate. The cases reported under valuation of goods consumed captively were, omissions to work out the assessable value of internal combustion engines manufactured and using captively in the manufacture of diesel electric locomotives by a factory for the year 1981-82 and onwards on the basis of cost data for relevant years, which resulted in short levy of duty of Rs. 93.65 lakhs; an assessee manufacturing printed circuit boards sold part of the production and used the remaining part for manufacture of colour television sets in his factory did not pay duty on the printed circuit boards used by him in the manufacture of colour television sets on the sale price of the circuits, which resulted in short levy of duty of Rs. 59.59 lakhs during the period from April, 1985 to July, 1987; and while working out the values of electronic capacitors used in his factory on cost basis, the department left out the margin of profit, which resulted in short levy of duty of Rs. 26.27 lakhs for the period from March, 1982 to August, 1986. The Ministry of Finance had admitted all the three objections.

After sale service charges were not included in the value of motor vehicles by a motor vehicle manufacturer leading to short levy of duty of Rs. 52.05 lakhs for the years 1984-85, 1985-86 and 1986-87.

A motor vehicle manufacturer adopted self insurance scheme to cover transit insurance of vehicles from the factory to the stock dealers but did not include the excess amount of Rs. 1.04 crores recovered under the scheme in the assessable value of motor vehicles, which resulted in short levy of duty of Rs. 26.12 lakhs. A unit manufacturing vegetable products, recovered distribution charges from the dealers but did not include those charges in the assessable value during the period 1st April, 1985 to 7th October, 1985, which resulted in short realisation of duty by Rs. 25.65 lakhs.

Cases of excisable goods not fully valued were payment of duty on decorated glassware based on the value of plain glass-ware by a manufacturer, which resulted in short levy of duty of Rs. 71.45 lakhs during June, 1983 to August, 1985, and exclusion of the value of truck chasis in the value of mobile drilling rigs by a manufacturer during the years 1985 and 1986, which resulted in under-assessment of duty of Rs. 22.69 lakhs, which were accepted by the Ministry of Finance.

Short levy of duty due to incorrect grant of exemption amounting to Rs. 5.98 crores were noticed, of which the Ministry of Finance/Central Excise Collectorates have already accepted objections of the value of Rs. 1.80 crores. An assessee producing spent liquor used it captively in the manufacture of wood pulp during the period from 29th July, 1986 to 31 March, 1987 but did not pay duty of Rs.1.31 crores; a manufacturer of patent and proprietary medicines produced 'dembulot' and 'entromycetin capsules 500' which did not contain the specified ingredients but did not pay duty of Rs. 33.59 lakhs during the period from January, 1985 to November, 1986. Duty was paid short by Rs. 70.61 lakhs between March, 1982 to September, 1985 on flat glass sheets by a manufacturer by delcaring the thickness of such sheets incorrectly and consequently availing excess exemption from duty. There was short payment of duty of Rs. 44.89 lakhs during the period from August, 1986 to September, 1987 by an assessee on X- Rays, X-Ray tubes and other X-Ray generators at lower rates applicable to electronic valves and tubes. Short levy of duty of Rs. 51.68 lakhs between January, 1985 to December, 1987 by five paint manufacturers, who obtained toluene for the manufacture of paints and varnishes and paid duty at the concessional rate used it in the manufacture of thinner, which was not in the manufacture of paints and varnishes and sold as such was commented upon. Payment of duty on glass fibre mats at the lower rate by an assessee on the grounds that the product was not glass fabrics, impregnated with plastic resulted in short payment of duty of Rs. 26.73 lakhs during the period from March, 1986 to June, 1988. Irregular utilisation of credit of duty paid on inputs amounting to Rs. 1.94 crores were pointed out of which Rs. 1.41 crores was accepted by the Ministry of Finance/the Central Excise department, cases of a manufacturer of photostat machines, who was irregularly allowed to avail of the credit of Rs. 80.53 lakhs on account of countervailing duty paid on imported parts of those machines and manufacturer of iron and steel products, who was permitted irregular credit of Rs. 46.70 lakhs on account of duty paid on ferro alloys brought into the factory without payment of duty during the period from 1 October, 1984 to 31 December, 1985, the department accepted the objection.

Non-levy/short levy of cess amounting to Rs. 63.41 lakhs was noticed in a number of cases in audit and the Ministry of Finance had admitted objection involving Rs. 19.04 lakhs. Non-inclusion of basic excise duty, special excise duty, sales tax etc., in the value of motor vehicles resulting in short levy of cess amounting to Rs. 21.95 lakhs during the period from April, 1984 to September, 1987, payment of cess at the rate of 10 paise instead of 30 paise per thousand bidis by different bidi producers on branded bidis resulting in short levy of cess of Rs. 13.31 lakhs between 1 March, 1987 and 30 June, 1987 and non-recovery of cess amounting to Rs. 11.81 lakhs on tea waste from a manufacturer of instant tea during the period from January, 1979 to December, 1987 were some of the cases reported.

A number of cases of procedural irregularities with revenue implications involving excise duty of Rs. 1.31 crores, of which Rs. 1.30 crores was accepted by the Ministry of Finance/Central Excise department. Case of an oil installation, which did not receive back re-warehousing certificates in respect of 41 consignments of mineral oils removed under bond without payment of duty of Rs. 24.75 lakhs between October, 1986 and March 1987, which had since been paid by the assessee and a number of tyre manufacturers taking credit of Rs. 1.57 crores on account of duty paid by them to a manufacturer of tyre cord fabrics, which was refunded by the department but did not simultaneously take any action to expunge the corresponding credits of duty availed by the tyre manufacturers and recovered Rs. 88.54 lakhs till January, 1988 leaving unrecovered balance of Rs. 68.59 lakhs, were reported. Other irregularities involving non-levy/short levy of duty of Rs. 7.14 crores were pointed out, of which Rs. 91.91 lakhs had already been admitted by Ministry of Finance/Central Excise Collectorate under the 'Amnesty Scheme' promulgated in 1986. The scheme applied to those manufacturers or importers, who had paid lower amount of duty in respect of excise clearances or on import of cargo upto 31st December, 1984, consequent to declaration of incorrect value or wrong classification, where the transactions were fully reflected in the accounts of the concerned assessee. Show cause notices issued to a motor vehicles manufacturer for Rs. 31.55 lakhs on account of non-payment of duty on bolts and nuts, which were misclassified and were used in the factory of production during different periods from April, 1980 to February, 1986 were not adjudicated but withdrawn, and the scheme, therefore, was not applicable to the case.

REVIEW ON MODVAT

The Report* - first ever report on an appraisal by the Indirect Taxes Wing of RAD - contained a review on Modified Value Added Tax (MODVAT) procedure which was introduced with effect from 1st March, 1986 as one of the measures of the Long Term Fiscal Policy which was intended to be broadly revenue neutral and designed to allow relief to the manufacturer on the duty element borne by him in respect of the raw materials (inputs) used by him. The Scheme was also to shift the burden of excise taxation away from inputs on to the final products, expected to boost the competitiveness of Indian industry and to tailor the excise duties in such a way that the well-off bear a higher proportion of the burden of taxation than the poor. The level of efficiency with which the MODVAT Scheme was implemented by the department was test checked with the relevant records of the assessees and the Central Excise collectorates and collection of revenue, in general terms. Though the scheme was intended to be revenue neutral, thirty seven manufacturers of motor vehicles, detergents, televisions, etc., were found to have availed of much higher credit than those which were being availed by them previously. Under the Scheme a manufacturer who purchases raw material and component parts from a small scale unit on payment of duty at concessional rate, shall be allowed credit of duty at the normal rate, but test check of eight hundred and fifty-one cases revealed grant of additional credit of Rs. 63.93 crores, which represented duty refunded, but not actually collected. The manufacturers of different excisable goods were found to have taken irregular Modvat credit of Rs. 5.41 crores in three hundred and eleven cases without filing the declaration indicating the inputs intended to be used in the manufacture of the final products and dated acknowledgements of the department for the same before availing of the credit. Irregular deemed Modvat credit of Rs. 9.63 crores was availed on wastes and scraps and other items which were clearly recognisable as non-duty paid. In disregard of the provision prohibiting the availment of credit of duty paid on machinery, equipment, tools,

* No. 11 of 1989 signed by Shri R. Ramanathan and countersigned by Shri T.N. Chaturvedi on 16th March, 1989 and presented to Parliament on 24th April, 1989.

appliances, etc., credit of Rs. 2.81 crores was taken irregularly in one hundred and eighteen cases. Additional credit of Rs. 2.05 crores on duty paid (though not required) to job works got done by some manufacturers was taken in twenty four cases. One hundred and eight manufacturers of excisable goods irregularly took Modvat credit of Rs. 1.75 crores on account of duty paid on inputs used in the manufacture of final products which were either fully exempted or chargeable to nil rate of duty. In forty one cases, duty of Rs. 73 crores was not levied on waste generated in the course of processing of inputs in respect of which Modvat credit had been taken. Other irregularities regarding irregular availment of Modvat credit amounted to Rs. 10.64 crores.

DIRECT TAXES

Audit Reports Vol. II on Direct Taxes were finalised in 10 to 12 months after the financial year and presented to the Parliament during its Budget Session except 10 Reports, which were presented in April/May/ June/July of the succeeding year. The number of pages in the Reports varied from 79 in 1971-72 to 307 in 1983-84 and the average number of pages was around 149. The number of paras ranged from 59 in 1971-72 to 189 in 1986-87 Report. The number of chapters increased to 5 (1976-77, 1977-78 and 1978-79) and 6 (1986-87). The first review on Direct taxes appeared in the Audit Report 1973-74, summary assessment scheme, which had seven sub-paras. Since then reviews were included in every years' Reports, except 1979-80 and 1981 Reports. The maximum number of reviews - seven - with 30 sub-paras appeared in 1976-77 Report. The last three years Reports carried four reviews with an average 6.3 sub-paras each and covered wide range of topics, (a) schemes - summary assessment scheme, voluntary disclosure of income and wealth scheme, 1975, Compulsory Deposit Scheme, (b) on specific institutions/offices, working of Tax Recovery Officers (twice), salary circles, treasury units, tax film circles, functioning of institutions of C.I.Ts (Recovery), Departmental Valuation Cell, (c) system and procedures - accounting tax Receipts, administration of surtax and pendency of arrears, procedure of collection and recovery of tax and arrears of Demands, Assessment procedure, administration of Section 139-A, Allotment of permanent account numbers, etc., (d) Specific subjects of topical interest - concealment of income by a family group of assessees, valuation of immovable properties, deduction of tax at source from contractors, (e) on wealth tax - levy of wealth tax on big agricultural land holdings, private family trusts wealth tax, (f) on valuation - urban immovable properties, acquisition of immovable properties, incorrect valuation of unquoted equity shares in companies, (g) refunds and old dues, outstanding arrears, etc. Table below gives the responsiveness of the Ministry of Finance for the paras proposed on Direct Taxes during the last four years, as appeared in the Audit Report :

	Years			
	1984-85	1985-86	1986-87	1987-88
Number of paras proposed	864	1102	1193	1329
Percentage of paras for which replies were not received at the time of printing Report	53	59	69	52

AUDIT REPORT (1987-88)*

The Report contained 158 paras including 4 reviews; 48% of paras were responded by Central Board of Direct Taxes under the Ministry of Finance, Department of Revenue. The total collections of direct taxes for the year was Rs. 6757.18 crores of which the proceeds from Corporation-tax were Rs. 3,432.92 crores and the cost of collection was Rs. 166.55 crores (2. 46%). 16,99,547 assessments involving arrears of demands of Rs. 4,708.50 crores were pending. While the system appraisals highlighted several shortcomings in the application of the prescribed rules and procedures, inadequacy and ineffectiveness of the internal controls and non-realisation of the desired objectives, the test-check of the individual assessments revealed total under-charge of tax of over Rs. 231 crores in 20935 cases.

A. SYSTEM APPRAISALS

(i) Procedure of collection and recovery of tax and arrears of demands. The review disclosed shortfall in action plan targets and progressive increase of arrears with a number of old and high value cases, nominal cash collection in the total clearance in any year, absence of any significant improvement in the recovery proceedings even a decade after the Institution of Recovery Commissioners, and considerable delays and deficiencies in the issue and disposal of recovery certificates, reconciliation of arrears, documentation of properties of defaulters and control over dossier and appeal cases. The cases commented included an individual in arrears of tax of Rs. 74.03 lakhs,

* No. 6 of 1989 signed by Shri M.M. Mathur and countersigned by Shri T.N. Chaturvedi on 17th March, 1988 and presented to Parliament on 25th April, 1988.

whose antique articles worth Rs. 12.75 lakhs kept under prohibitory order since 1974 without disposal for 11 years due to non-reconciliation thereof with survey-lists and ignorance of the procedure of their disposal; non-realisation of demands of over Rs. 103 lakhs raised on the basis of seized gold bars in 1984 due to ineffective action by two Tax Recovery Officers, who failed to ascertain the correct whereabouts of the assessee and enforce coercive steps; a sugar company in arrears of Rs. 49.12 lakhs, whose plant and machinery were attached, but the recovery was stayed by the State Chief Minister and the proceeds of stock of sugar were distributed between the bank, cane growers and workers, despite the disapproval of the Commissioner of Income-Tax (Recovery) and the case of an agreement entered into by the department in 1980 in plain paper with an assessee in respect of arrears of an ex-ruler aggregating to Rs. 3.34 crores and subsequent withdrawal of the attachment effect in 1978 of movables including jewellery and immovables valuing Rs. 79.13 lakhs on the understanding that the assessee would withdrew the Court case and allow the sale of lands under the provisions of the Act, which was challenged by assessee later but the department realised Rs. 155.34 lakhs on sale of land under Court order. However, the movables in jewellery and ornaments valued at Rs. 102.85 lakhs could not be re-attached for want of particulars of location of the property.

(ii) Administration of surtax and pendency of arrears. Government issued executive instructions in 1974 for completion of surtax assessments within a month of completion of income-tax assessments. 2978 surtax assessments and the arrears of surtax demand of Rs. 23.35 crores were pending in March, 1987. The surtax and investment allowance were withdrawn from assessment year 1987-88 but the investment allowance was later revived to some extent. The abolition of surtax sealed a sound source of revenue payable by big companies reaping large profits. There was also no indication of any appreciable growth in voluntary compliance. There was no marked improvement in the monitoring, control, or liquidation of surtax assessments, especially the old and high value cases and the overall administration of surtax, in compliance of the provisions relating to filing of surtax returns, payment of advance tax, disposal of assessments and recovery of arrears, was neither efficient nor effective. Substantial under charges of tax of Rs. 15.53 crores were also noticed on test check of assessments both in the computation of capital and chargeable profits, suggesting lack of adequate administrative safeguards over assessments. Important cases of inordinate delays in the completion of surtax assessments and of other errors in the surtax assessments mentioned in the Report were in three cases, inordinate delays after filing of surtax returns and after completion of the relevant income tax assessments, in the completion of surtax assessments which had led to the non-levy and postponement of substantial amount of surtax (Rs.4. 50 crores). In two other cases, leviable surtax of Rs. 1.85 crores was not levied even 12 to 89 months after the completion of the relevant income-tax assessments (Rs. 1.85 crores), in another major case the regular surtax assessments for two years were not completed even after 29 months of the finalisation of income-tax assessments, which involved large amount of additional surtax (Rs. 53.93 lakhs); in yet another case, an assessee did not file surtax returns for two years and the department also had not initiated proceedings for surtax assessments even after completion of the relevant income-tax assessments in February, 1987 and February, 1988 (Rs. 31.88 lakhs).

Omission to reduce the general reserve by the amount of depreciation allowed in the Income-tax assessments of six companies over and above the debit to their accounts, while computing the capital under the surtax Act, led to over computation of capital by Rs. 2.56 crores (Rs. 27.84 lakhs). In another case Rs. 8 crores paid as dividends from out of the general reserve without making a provision in accounts was not reduced from the general reserve which led to excess computation of capital by Rs. 7.6 crores (Rs. 51.30 lakhs). Non-levy of interest of Rs. 15.02 lakhs for non-payment of provisional demand of Rs. 26.47 lakhs beyond 35 days in one company (Rs. 15.02 lakhs).

(iii) Avoidable mistakes in computation of income and tax. The test audit during the year revealed under-assessment of tax of Rs. 2.92 crores in 796 cases, which included a substantial number of assessments made by the senior officers and checked by Internal Audit. The nature of the errors, *viz.* adoption of incorrect figures/digits, errors in totalling and transcription, double allowance, etc. suggested that the internal control and procedures were inadequate or ineffective and the Internal Audit had failed in the discharge of its duties. Few instances of such mistakes were given in the Report. While computing total income of a company, investment allowance of Rs. 121.82 lakhs was erroneously adopted as Rs. 12.82 lakhs and additions to machinery as Rs. 59.29 lakhs, instead of Rs. 58.29 lakhs (Rs. 68.92 lakhs). In the case of another company, set off of unabosorbed business loss of Rs. 57.50 lakhs and carry forward of another amount of Rs. 1.72 crores by way of unabsorbed loss, depreciation and tax holiday concession, already set off against the profits of assessment year 1981-82 was again erroneously allowed in assessment year 1982-83 (Rs. 1.51 crores). Set off of unabsorbed investment allowance of Rs. 1.43 crores in assessment year 1982-83 and again in assessment year 1984-85 led to excess carry forward of unabsorbed investment allowance in a third company case (Rs. 83 lakhs).

There was excess computation of loss by Rs. 19.62 lakhs due to omission to disallow expenditure of Rs. 10.19 lakhs disallowed in assessment and erroneous consideration of expenses already allowed in earlier assessment in yet another case (Rs. 11.33 lakhs). Income was short computed by Rs. 10.03 lakhs due to an arithmetical error in casting the total of incomes of another assessee (Rs. 13.93 lakhs). Instead of carry forward and set off of unabsorbed investment allowance of Rs. 2.05 lakhs as per revised order, an amount of Rs. 24.74 lakhs was carried forward leading to under-assessment of Rs. 22.69 lakhs in another case (Rs. 13.11 lakhs).

(iv) Review of Accounting of Tax Receipts and Working of Departmental Treasury Units. The Review brought out lack of a proper and adequate control over the system, considerable delays in setting right discrepencies, large unreconciled differences in tax receipts and refunds, non/incomplete maintenance of prescribed registers, delays in distribution and non-accountal of challans/refund advices and submission of accounts, large pendency in suspense accounts, misclassifications and omission to give cross-referencing.

B. TEST AUDIT RESULTS

The test audit of individual assessment records disclosed under-assessment of tax which included various mistakes ranging from simple arithmetical errors to important and interesting points of law, besides lack of correlation amongst direct taxes, *inter se*. Some important cases involving substantial revenue or subtle points of law were featured in the Report:

(i) Incorrect computation of business income. Mistakes in computation of business income were noticed in 4,833 cases involving tax effect of Rs. 66.15 crores, although the assessments were done at a fairly high level. A widely held company was erroneously allowed a deduction of Rs. 8.13 lakhs, though the expenditure had not been certified by the prescribed authority (Rs. 4.59 lakhs). Three companies were allowed the deduction on purchase and manufacturing expenses and expenditure in connection with market survey and on Indian expenses aggregating to Rs. 1.26 crores (Rs. 74.89 lakhs). In two company cases incorrect allowance of entire expenses incurred in connection with the issue of debentures for expansion of business as revenue expenditure and omission to restrict the qualifying expenses to the prescribed limits, led to under-assessment of income of Rs. 33.68 lakhs (Rs. 27.64 lakhs). Two companies were erroneously allowed gratuity liability and provision for bonus and gratuity aggregating to Rs. 3.65 crores on actual payment basis and again on accrual basis as per appellate orders in successive years (Rs. 2.54 crores). A widely held company was allowed incremental liability towards gratuity without a provision or actual payment being made in accounts, leading to under-assessment of income of Rs. 28.95 lakhs (Rs. 18.21 lakhs). In another case, the value of goods lost in transit of Rs. 21.56 lakhs was allowed without taking into account the insurance claim (Rs. 12.15 lakhs). In five company cases, there was erroneous allowance of a total contribution of Rs. 1.58 crores made to their staff savings scheme fund, workers sickness benefit society and labour welfare fund and a common fund for payment of commission to managers (Rs. 1.15 crores). Allowance of transit flat expenses in the assessments of a company led to under-assessment of income of Rs. 19.38 lakhs (Rs. 12.88 lakhs). Allowances of a provision made for future losses against work-in-progress and for slow/non-moving stores materials in the case of two companies and a provision for stock debited to accounts contrary to normal practice in another case of a widely held company, led to a total under-assessment of income of Rs. 1.18 crores (Rs. 67.78 lakhs). In the case of a private limited company no disallowance on account of expenditure on interest on deposits in the case of non-banking and non-financial companies was made in respect of interest on fixed deposits which resulted in under-assessment of income of Rs. 39.54 lakhs (Rs. 22.29 lakhs). Omission to limit the deduction to the amount carried to the reserve account in two cases and incorrect deduction on the total income without considering the deduction in another case, led to a total under-assessment of income of Rs. 27.39 lakhs (Rs. 20.15 lakhs). Allowance of prior years' expenses representing adjustments relating to pre-incorporation period and earlier period in a company case led to under-assessment of income of Rs. 1.56 crores (Rs. 92.53 lakhs). A banking company was erroneously allowed the deduction on interest on arrears of income-tax involving short assessment of income of Rs. 9.12 lakhs (Rs. 37 lakhs). There was erroneous allowance of loss on fluctuations in the rate of exchange of currency, amounting to Rs. 35.26 lakhs in the case of a company (Rs. 19.87 lakhs). Allowance of claim for bonus and gratuity in one company case on actual payment basis and again as per appellate order on the basis of provision/liability, led to under assessment of income of Rs. 16.29 lakhs (Rs. 12.03 lakhs). In two cases the deduction was allowed in excess of 20% of gross amount of income which led to underassessment of income of Rs. 65.60 lakhs (Rs. 35.04 lakhs). From assessment year 1984-85, the deduction for any tax or duty or any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation or gratuity fund or any fund for welfare of employees, is admissible in the year of actual payment. In 42 cases the deductions were wrongly allowed without actual payments by the employer by way of contribution to any provident fund or superannuation or gratuity fund or any fund for welfare of employees, in the year, which resulted in under-assessment of Rs. 2.25 crores (Rs. 1.40 crores).

(ii) 8 trusts which carried on business were not assessed as association of persons on their income aggregating to Rs. 58.03 lakhs (Rs. 20.93 lakhs).

(iii) Irregularities in allowing depreciation and investment allowance. Mistakes in allowing deduction towards depreciation and investment allowance were noticed in 1,543 cases involving a total revenue effect of Rs. 26.38 crores. A company manufacturing synthetic jewels was allowed depreciation at 20 per cent instead of 15 per cent (Rs. 16.85 lakhs). Allowance of special rate of depreciation for undefined assets styled 'Enabling works' in one company case led to excess allowance of depreciation (Rs. 78.60 lakhs). In three cases of companies and another assessee, general rate of depreciation was erroneously allowed for assessment years prior to 1984-85 (Rs. 17.48 lakhs). A company and a unit of another company remained under lock out throughout the previous year but depreciation of Rs. 87.61 lakhs was wrongly allowed on their plant and machinery, though not actually used in business (Rs. 50.60 lakhs) during the year. Erroneous allowance of additional depreciation and investment allowance on second hand machinery, on a computer terminal and data processing machine installed in office premises, on fork-lift trucks used as road transport vehicles and on capital expenditure incurred led to an aggregate under assessment of income of Rs. 39.58 lakhs (Rs. 24.56 lakhs). Omission to reduce the cost of plant and machinery by the amount of subsidy and subvention amount led to under-assessment of income and excess determination of loss aggregated to Rs. 31.26 lakhs in 8 cases (Rs. 18.45 lakhs). Adoption of incorrect written down values in five company cases led to under-assessment of income of Rs. 9.30 lakhs (Rs. 6 lakhs). Eight companies were wrongly allowed deduction under provision for capital expenditure on scientific research resulting in under-assessment of income of Rs. 26.70 lakhs (Rs. 18.40 lakhs). In the case of an industrial company, there was under-assessment of income of Rs. 16.92 lakhs due to allowance of set off of unabsorbed depreciation twice in consecutive years (Rs. 11.92 lakhs). In two cases of registered firms, depreciation that could not be absorbed against partners income was not carried forward for set off in their hands leading to under-assessment of income of Rs. 5.67 lakhs (Rs. 2.70 lakhs).

A company engaged in the manufacture of radios, record players etc., was wrongly allowed investment allowance of Rs. 71.43 lakhs though the items manufactured were classified as non-priority items in the Schedule to the Act (Rs. 51.86 lakhs). Investment allowance (also additional depreciation and relief in respect of profits of new industrial undertaking) was allowed to a company engaged only in the construction of buildings and to another on capital expenditure incurred on replacement, modification and improvement, leading to under-assessments of income of Rs. 27.81 lakhs (Rs. 20.29 lakhs).

(iv) Income escaping assessment: Omission to assess incomes accruing or arising or received or deemed to be received in India during the previous year accounted for a total under-assessment of tax of Rs. 31.66 crores in 1,467 cases. Non-assessment of accrued interest of Rs. 5.72 crores on sticky loans in the case of a nationalised bank led to under-assessment of income of Rs. 5.72 crores (Rs. 3 crores). In five cases (a co-operative society, three individuals and an association of persons) share income, capital gains, income from lease rent and from money lending business were not returned by assessees or assessed to tax by the department (Rs. 11.68 lakhs). Sales tax liabilities written back by a company were not assessed as income involving under-assessment of income of Rs. 1.72 crores (Rs. 1.50 crores). Interest of Rs. 31.76 lakhs on debt, allowed in earlier years and credited to contingency reserve as being time barred, was not assessed as income (Rs. 17.90). On sale of depreciable assets, the difference between the actual cost and the written down value is income liable to tax. Such profits of Rs. 33.54 lakhs on sale of assets credited to the general reserve account of a State Electricity Board were not assessed to tax (Rs. 19.37 lakhs). Two companies were not taxed on Rs. 26.50 lakhs and Rs. 23.43 lakhs collected as Sales Tax but not accounted for in the profit and loss account (Rs. 33.20 lakhs). Incorrect valuation of Ganja and Bhang in the case of an individual led to short computation of income by Rs. 19.59 lakhs (Rs. 17.27 lakhs).

(v) Mistake/Delay in giving effect to appellate order. An appellate order mentioned the rate of tax applicable to a foreign company on such royalty income as 40 per cent (instead of 50 per cent) which was given effect to without rectifying the mistake (Rs. 66.50 lakhs). While allowing depreciation as per appellate order at higher rate, the actual cost of buses was not reduced by the subsidy of Rs. 1.25 crores, which led to excess determination of loss by Rs. 50 lakhs (Rs. 28.87 lakhs). Disallowance in respect of cash payments exceeding Rs. 2,500 amounting to Rs. 13.15 lakhs was confirmed in appeal in the case of a company, but while giving effect to the appellate order, the disallowance made was erroneously withdrawn (Rs. 11.94 lakhs). Delay of over 7 years in giving effect to a court order of August 1980 in one case and omission to redo the assessment set aside by an Appellate Tribunal in 1982 even after Supreme Court Judgement in July 1985, led to non-levy and postponement of collection of tax (Rs. 45.30 lakhs).

(vi) Incorrect set off of losses. Under assessment of tax of Rs. 5.58 crores in 284 cases owing to incorrect set off of losses, unabsorbed depreciation was pointed out. In the case of 8 companies and an unregistered firm due to incorrect working of the amounts to be carried forward, set off beyond the prescribed period, set off against non-business income and double allowance, there was a total short computation of income by Rs. 87.80 lakhs (Rs. 57 lakhs). Omission to follow the prescribed order of priority in the case of a company and a co-operative society led to set off excessive amounts (Rs. 26.97 lakhs).

(vii) Irregular exemptions and excess reliefs. Mistakes in correctly applying the provisions of the Act allowing certain deductions were noticed in 1,478 cases with revenue effect of Rs. 17.98 crores. Erroneous allowance of the deduction in four company cases due to incorrect working of gross total income and omission to restrict the deduction to the amount of gross total income led to under assessment of Rs. 42.81 lakhs (Rs. 24.35 lakhs). Allowance of deduction in 4 company cases on the gross income instead of the net income led to under-assessment of income of Rs. 53.04 lakhs (Rs. 36.41 lakhs). Allowance of the deductions in cases where the requisite reserve was not created, on agricultural primary commodities (hand-picked ground nut seeds), on profit arrived at before setting off depreciation, investment allowance and brought forward losses, etc., on new industrial undertakings established prior to April 1981 and on dividends from other than co-operative societies led to under-assessment of income of Rs. 1.21 crores (Rs. 71.61 lakhs). In two other cases, deduction was allowed on capital employed worked out without the value of assets being reduced by the initial depreciation and the amount of public deposits and interest, which led to allowance of excess relief of Rs. 1.08 crores in respect of tax holiday (Rs. 68.95 lakhs). In four cases, mistakes in applying the procedure of limiting the aggregate amounts of deductions under certain provisions of the Act to 70% of the pre-incentive total income *i.e.* total income before deduc tion led to under-assessment of income of Rs. 18.08 lakhs (Rs. 14.24 lakhs).

(viii) Non/incorrect levy of interest. In five cases, one individual and four companies, interest for defaults in compliance with the provisions of the Act was not levied (Rs. 1.10 crores). In one case the interest was undercharged by Rs. 13.74 lakhs due to incorrect adoption of the amount on which interest was chargeable (Rs. 13.75) lakhs.

(ix) Mistakes in assessments under the summary assessment procedure were noticed during the year 1987-88. 4090 cases with revenue effect of Rs. 13.82 crores. The random sample scrutiny prescribed with a view to prevent any abuse of the scheme also continued to suffer from the deficiencies pointed out in earlier Audit Report.

(x) Certain procedural safeguards against tax evasion and tax avoidance contained in the Act were found uncomplied with in a large number of cases. There was no evidence of any departmental action to enforce strict compliance. In none of the cases noticed in audit, was any penal action taken and penalty levied to enforce discipline. The additional tax that could have been collected had the regular payments been disallowed and the assessees been levied the penalty/fine as provided in the Act, revenue of nearly Rs. 14 crores would have accrued to Government.

(xi) Under Wealth-Tax, omission to assess the wealth in the hands of the member led to under-assessment of wealth of Rs. 5.70 crores (Rs. 54.33 lakhs under-assessment of wealth of Rs. 1.12 crores (Rs. 5.17 lakhs) in the case of 10 individuals, due to mistakes in adopting the correct quotation in the stock exchange and omission to assess the differential value in the assessments of nine trusts led to aggregate short levy of tax of Rs. 2.46 lakhs were commented upon.

(xii) Gift Tax. In two individuals' cases there was escapement of gift of Rs. 21.05 lakhs due to non-filing of gift tax return on transfer of shares and property for inadequate consideration (Rs. 6 lakhs). In the case of an individual, no gift tax could be levied on assignment of a policy against which premia of Rs. 6.14 lakhs was paid during the first two years in the absence of an enabling provision (Rs. 1.43 lakhs). A partnership was reconstituted three times during a period of five years altering the profit sharing ratios involving surrender of interest without consideration in money or money's worth and deemed gift of Rs. 95.70 lakhs, which was not taxed (Rs. 32.84 lakhs). Transfer of shares at much less than their market value in two cases attracted deemed gift of Rs. 31.21 lakhs to a nationalised bank in Srinagar out of moneys borrowed in the taxable territories and made a gift of the amount to 22 newly created discretionary trusts with 44 private limited companies as beneficiaries owned by his family members, by cheques drawn on the bank during his visit to Srinagar. No gift was assessed as the individual was ordinarily resident in Jammu and Kashmir and the property and gift was made in Jammu and Kashmir outside the taxable territories, though the gift was taxable on a true state of affairs and character of the transaction (Rs. 16.03 lakhs).

EXAMINATION BY PAC

PAC categorised the paragraphs since 1968 according to their importance into three categories *viz.* 'A' Very Important; 'B' Important;

'C' Others and were taken up in the order of categories A, B and C depending upon the availability of time for oral evidence. In respect of paragraphs which could not be taken up for discussion by the selective process, the remarks of the Ministry were obtained in writing duly vetted by audit. The PAC examined both effective and routine paras of the Audit Reports 1971-72 and 1972-73 - 66 paras (42 on Central Excise and 24 on Customs) out of 78 paras (51 Central Excise and 27 Customs) were examined. During 1973-74 to 1981-82, 1983-84, 1985-86 and 1986-87 few paras were selected for oral examination separately for each Report. The number of paras selected from Volume I varied from one on Central Excise out of 107 effective paras (51 on Central Excise and 56 on Customs) of 1984-85 Report to 21 paras (13 on Central Excise and 8 on customs) out of 80 paras (67 on Central Excise and 13 on Customs) in 1980-81 Report. In all, 122 paras, 83 on Central Excise and 39 on Customs, out of 1156 paras - 800 on Central Excise and 356 on Customs, which appeared in Audit Reports, 1973-74 to 1986-87 were selected for oral examination *i.e.*, 10.55 per cent of the total number of paras included in 14 years' Reports. Ten reviews - 5 on Central Excise and 5 on Customs - were selected by the PAC for examination, out of 32 (18 on Central Excise and 14 on Customs) included in eight Audit Reports - 1977-78, 1980-81 to 1986-87. The Committee took ten to twelve months for taking up Report after their presentation in the Parliament for oral examination of selected paras and presentation of their reports, except in certain years - 42 months for 1972-73, 32 months for 1976-77 and 1981-82 reports and 31 months for 1973-74, 25 and 28 months for 1982-83 Report, despite the limited number of paras selected for oral examination. In certain years more than two reports were presented in one year, three reports on Customs, four reports each on Central Excise and Customs in one year and five reports on Central Excise in one year.

72 reports, 6 common for both, 31 on Central Excise and 35 on Customs, on 26 years' ARs covering upto 1985-86 Report, were presented by April 1989, which contained 1850 recommendations - 978 recommendations on Central Excise and 872 on Customs. Action Taken Reports on 6 reports presented during April 1987 to April 1989, which carried 93 recommendations, remained to be finalised. In respect of Central Excise Department, Government accepted 505 recommendations, the PAC did not pursue 245 recommendations after receipt of replies from Government; replies of Government in the case of 103 recommendations were not accepted by the Committee; and final action on 128 recommendations was awaited. On the Customs side, 423 recommendations were accepted by Government; the Committee did not pursue

the replies received on 110 recommendations; it did not accept replies on 141 recommendations and final action was awaited in regard to 198 recommendations.

63 Action Taken Reports, of which 5 were common to the original Reports on Central Excise and Customs, 27 on Central Excise and 31 on Customs were issued upto April 1989 respectively. Action on 2 Central Excise Reports on the PAC containing 17 recommendations (155th and 156th Report - 1988-89 - presented on 25th April, 1989) was yet to be taken. 5 Reports on Customs containing 76 recommendations were awaiting final action 92nd Report presented on 29th April, 1987, 133rd Report presented on 28th April, 1988, 124th Report presented on 18th April 1988 and 151st and 164th Report presented on 19th April, 1989 and 26th April, 1989 - all VIII Lok Sabha. The average time taken for presenting Action taken Reports was around 27 months in the case of Central Excise except in a few cases where 25 to 49 months were taken. Action Taken Reports on PAC's reports on Customs normally took 12 to 24 months and a few reports took between 28 to 44 months.

The minimum number of paras of Volume II taken up for oral examination was 1 (in 1983-84) and the maximum 6 (in 1976-77 and 1980-81 Report). Of the 1273 paras, including 38 reviews, that appeared in Audit Reports 1971-72 to 1986-87, 265 paras including 12 reviews were selected for oral examination *i.e.* 21 per cent of the total contents of the Report. The minimum time taken for examination and presentation of reports was 7 months for 3 paras of 1978-79 Report - 34, 38 and 51 (VIIth Lok Sabha) presented on 31st March, 1981, 30th April, 1981 and 30th April, 1981 and maximum time 35 months and 21 days for presenting a report on 1 para of 1976-77 Report - 28th Report 7th Lok Sabha presented on 17th March, 1981. On an average 15 months were taken for examination of paras and presentation of reports after the Audit Reports were laid before Parliament. More than one report was presented in most of the years, two reports each in five years, 3 reports each in 2 years, 4 reports each in 2 years, 5 reports each in 2 years and 6 reports on 1980-81 Audit Report, which were presented between 29th April, 1983 and March 1984.

14 reviews were examined by PAC on which 13 reports were issued containing 208 recommendations. Two reviews of Audit Reports 1986-87 and 1987-88 selected were under examination by the Committee. The reports on reviews of the Committee carried recommendations ranging from 6 to 30. Action Taken Reports on 8 reports of PAC were finalised upto March 1989 which indicated 69 recommendations were accepted by Government, 30 recommendations were not pursued by PAC on receipt of replies of Government, on 26 recommendations replies were not

acceptable to the Committee and only interim replies had been received in 2 cases.

The first Action Taken Report on PAC's first report on 1962 Audit Report was presented on 6th March, 1964 (21st Report dated 6th March, 1964 III Lok Sabha) involving a time lead of 12 months and 14 days. The latest Action Taken Report was 137th dated 29th April, 1988 (VIII Lok Sabha) on Audit Report 1983-84. The minimum time taken for a single Action Taken Report was 7 months - 238th (V Lok Sabha) dated 1st November, 1976 on its 193rd Report dated 2nd April, 1976 - Vth Lok Sabha and maximum time 48 months 101st (VIII Lok Sabha) dated 22nd April, 1983. The average time taken in presentation of 54 Action Taken Reports upto April 1988 on the original Reports of the Public Accounts Committee was around 17 months. On seven reports of PAC - 71st dated 18th March, 1987, 95th dated 28th April, 1987, 116th dated 22nd April, 1988, 136th dated 29th April, 1988, 141st dated 8th March, 1989, 150th dated 12th June, 1989 and 173rd dated 11th August, 1989 - VIII Lok Sabha, Action Taken Reports remained to be completed.

Of the total number of 2043 recommendations made in 55 Reports during March 1964 to August, 1989 (which covered the Audit Reports presented upto May, 1987), 1085 (53 per cent) recommendations were accepted by Government; the Committee did not pursue 167 recommendations after replies of Government were received (8 per cent); replies received from Government for 225 recommendations (11 per cent) were not accepted by the Committee and on 566 recommendations (28 per cent) final replies of Government were awaited.

As regards 382 paras including 7 reviews included in the Audit Reports 1984-85 to 1986-87, 2117 action taken notes were sent by the Ministry to the Monitoring Cell of the Ministry of Finance between 31st December, 1986 and 28th December, 1988, out of which 1981 notes were vetted by audit. In 1537 cases action taken notes were accepted, in 409 cases they were not accepted after vetting and in 35 cases the notes were partially accepted. In the remaining 136 cases the action taken notes from the Ministry were awaited in March 1989. No specific recommendations on the action taken notes received from the Monitoring Cell of the Ministry of Finance was made.

SELECTED PARAS AND ACTION THEREON

Some of the important comments included in the Audit Reports alongwith recommendations of PAC and the action thereon, including changes in statutes, rules, regulations, etc. are given in succeeding paras.

CENTRAL EXCISE

(i) Cess* on unmanufactured tobacco under the Beedi Workers' Welfare Cess Act, 1976 was collected by the Customs and Central Excise Department upto 22nd February, 1979, which was abolished from 1st March, 1979. But no alternative arrangements for collection of cess were made and the uncollected amount of Rs. 5 crores was lost for the welfare of the Beedi Worke Rs. The Act was amended in the Budget of 1980 but was made effective from 1st January, 1982. The PAC recorded their displeasure at the apathy of the Government and the leisurely manner in which the Ministry of Finance and the Ministry of Labour had proceeded to amend such a vital legislation meant for the welfare of the workers and desired that a suitable procedure should be evolved for expeditious disposal in future.

(ii) Non-levy of duty on goods produced or manufactured at each stage of removal, whether for consumption, export or manufacture in or outside the integrated factory in accordance with the Board's instructions based on "later the better principle" which lacked legal backing to the tune of Rs. 23.49 crores was commented** upon. The PAC recommended for providing appropriate legal backing and the Government amended the rules.

While examining the AR 1979-80 PAC$ noticed that for 285 paras incorporated in the Report only one para was replied within six weeks, another within 2 months 43 paras within 3 months, 72 paras within 6 months, 68 paras after more than 6 months and 92 paras had not been replied even after the Report was taken up for examination by them. The Chairman CBCE confessed that they were not aware of the time limit of six weeks for sending replies prescribed by Government of India in pursuance of a recommendation of the PAC made in 1943-44. When pressed further, the Chairman stated that the prescribed time limit of six weeks for sending replies to draft Audit paras was not enough. As the reports of the CAG are laid before Parliament during Budget Session every year and they have to be finalised by the office of the CAG and got printed according to a prescribed time schedule and since the office of the CAG took into account the replies received from the Board even after the prescribed period, there can be no justification for inordinate delays pointed out by them and it was in the interest of the Central Excise Department itself to ensure that replies were sent in time and the Department's views, as also verified facts were finalised for presentation to Parliament and for consideration by the Committee thereafter.

* Para 2.41 of AR 1979-80; 1.6 of 140th Report of PAC (Seventh Lok Sabha).

** Para 2.10 of AR 1979-80.

$ 1.26 to 1.46 of 67th Report (1981-82).

(iii) Misuse of concessions granted to small scale sector to encourage their growth on payment of duty on the goods manufactured in their factories by the big manufacturers at times by getting their goods manufactured either from the SSI units or from their own dummy SSI units established only for availing the concession was pointed out* in audit. A revised small scale exemption scheme** applicable to various excisable goods was introduced from 1st March, 1986 on the lines recommended by the PAC.@

(iv) Objection$ was taken for treating 'Boroline' as a POP medicine (T.I. 14 E) and not as a cosmetic and toilet preparation as merited by the ingredients and the PAC endorsed the recommendations$$, Tariff item 14F was amended on the pattern of CCCN with effect from the Budget of 1985 to include specified antiseptic perfumed creams.

(v) Repeated objections& were taken on avoidance of duty on body building activity on motor vehicles chassis cleared without body built thereon, which was undertaken subsequently after their clearance. Both the chassis of the vehicles and the body building of the motor vehicles were made chargeable to excise duty from March 1986.

(vi) Loss of revenue amounting to Rs. 1.74 crores from April, 1982 to December, 1983 due to non-collection of duty on the cellulose xanthate captively consumed was pointed@@. The exemption was limited to a cellulose xanthate used in the manufacture of viscose fibre from 30th October, 1985 and recovery was ordered for the past period. The suggestion made by the PAC to lay the notifications in regard to remitting duty under Section 11-C on the table of the House was also accepted and the Section 38 of the C.E. and Salt Act, 1944, was suitably amended.

(vii) A case of irregular credit of duty of Rs. 1.17 crores on base yarn and its utilisation for payment of duty on textured yarn was reported@. The provision of Rule 56A of the Central Excise Rules 1944, was extended to textured yarn with effect from 1 March, 1983 by virtue of which an assessee could take credit of duty paid on base yarn received by him on or after that date and utilise the same for payment of duty on textured yarn produced from such base yarn. The aforesaid facility was withdrawn from 16 July, 1983 through a notification dated 1 July, 1983. A

---

* Para 2.08 of AR 1980-81.

** Notification No. 175/86 dated 1st March, 1986.

@ 180th report of PAC (VIIth Lok Sabha).

$ Para 2.17 of AR 1981-82.

$$ 208th report of PAC (VIIth Lok Sabha).

& Para 2.15(1) of AR 1983-84.

@@ Para 2.15(ii) of AR 1984-85.

@ Para 4.58 of AR 1986-87 (No. 5 of 1988).

big manufacturer of textured yarn in Ahmedabad Collectorate made an unserialled credit entry of Rs. 1.17 crores in his account maintained under Rule 56 A (RG 23) between 10 and 12 July, 1983, which was not supported by any document showing payment of duty on base yarn and artificially inflated the credit balance by Rs. 1.17 crores. The assessee utilised the balance towards payment of duty on textured yarn till 15 July, 1983. The mistake was detected by the Preventive Officers of the Collectorate who visited the unit on 23 May, 1987. The irregular credit of Rs. 1.17 crores taken by the assessee could neither be detected by the department in the course of checking of monthly return of the assessee relating to July, 1983 (RT 12) in the Range nor by the Internal Audit Parties visiting the factory. A show cause notice issued on 23 July, 1987 calling upon the manufacturer to state why a penalty should not be imposed on him for the contravention of the provisions of the Central Excise Rules was pending adjudication (December, 1987). There was no reply to the para from the Ministry of Finance.

The PAC expressed* its displeasure over the non-detection of the case by the Internal Audit as well as by the Range Officer and recommended disciplinary action against the erring officer, while commending the work of the Preventive Officer and desired the CBEC to direct the Collectorate specifically to keep a constant watch over the performance of the Internal Audit and monthly scrutiny of the returns with a view to making excise surveillance more effective and checking malpractices resorted to by unscrupulous elements. The Ministry of Finance was requested to insert suitable provisions in the Central Excise Law so as to enable Government to recover penal interest from the assessees for delayed payment of duty and to withdraw the advantage of getting credit in respect of duty paid from assessees committing offence of taking credit falsely. The Committee also desired for expeditious completion of departmental proceedings pending against the assessee in this case and six other adjudication/criminal prevention cases involving duty of nearly Rs. 30 crores against the same firm for violation of provisions of Central Excise Law during the past three years to realise the legitimate dues of the Government. The Committee desired the Ministry of Finance should deal with 12 cases of tax evasion of duty of Rs. 1 crore and above commenced during the year 1984, 1987 and 1988, involving duty of nearly Rs. 1824 crores sternly, expeditiously and with more zeal.

* 155th Report (1988-89) - Eighth Lok Sabha presented to Parliament on 25th April, 1989.

(viii) The PAC recommended* after examining the audit comments that the notifications issued by Government under Section 11-C of the C.E.S. Act, 1944, seeking regularisation of non-recovery of excise duty, not levied or short levied, along with a memorandum of financial implication in both the cases should be placed before the Parliament and Government amended sub-section (2) of Section 38 of the Act, vide Section 15 of the Customs and Central Excise (amendment) Act, 1988 with effect from 1st July, 1988.

(ix) The PAC** went into the impact of Central Excise Duty concessions in respect of man-made fibres and yarn in the Budget 1988 on prices and stated that concession in Excise Duty to the tune of Rs. 249 crores given to the textile industry in respect of man-made fibres and yarns expected to be passed on to the consumers in the form of lower prices did not materialise. The Committee examined the monetary mechanism particularly the functioning of the Price Monitoring Committee and was shocked to note that the Committee which was required to meet monthly, met only in June, July and December 1988 and was a total failure and the way it functioned was highly deplorable. The officers who had been charged with responsibility of overseeing the working of the Committee, had clearly been remiss in the charge of the duties entrusted to them and recom-mended that the ineffective and irregular working of the Price Monitoring Committee should be probed into and responsibility fixed for the lapses. The Committee had also recommended that the Government should evolve a standing mechanism with a view to ensuring that the concessions intended for the ultimate consumers were actually passed on and that the immediate beneficiaries and intermediaries were not allowed to manipulate the market forces to their advantage and take away the revenue sacrifice intended for the common people and enrich themselves at their cost.

CUSTOMS

Non-levy of customs duty on confiscated car released on redemption fine of Rs. 25,000 without charging duty amounting to Rs. 87,500 on the basis of value of Rs. 50,000 shown in seizure report and non-levy of penalty on the person, who acquired possession of the car illegally imported into the country was commented* upon. The Ministry held that the registration documents and other evidence produced by the person from whom the

---

* 113th Report of PAC (1987-88) Eighth Lok Sabha.

** 156th Report (1988-89) Lok Sabha presented to Parliament on 25th April, 1989.

* Para 1.15 of Ar. 1980-81 Vol. I - Indirect Taxes.

car was seized were found to be forged and false and since there was no evidence to establish that the person who possessed the car had no knowledge that the car was smuggled into the country and the Ministry of Law held that in town seizure cases the duty liability rested only on the importer and in this case neither the manner of import of vehicle nor the identity of the actual person, who imported it, could be established. The PAC recommended** that the Ministry of Finance should consult the Ministry of Law and obtain opinion of the Attorney General of India on the need to amend the Act. After obtaining the opinion of the Attorney General Government amended the Act, whereby the duty could be demanded from a person whose custody the goods were seized in town-seizure.

A case of irregular procedure@ in recovery of duty on vacation of stay order and loss of revenue by way of interest on payments of duty in instalments was reported. According to sub-section (1) of Section 59 of the Customs Act, 1962, an importer who deposits the imported goods in customs bonded warehouse, is required to execute a bond binding himself in a sum equal to twice the amount of duty assessed on such goods and to pay on or before a date specified in a notice of demand all duties, rent and charges claimable on such goods together with interest on the same from the date so specified at the rate of 6 per cent upto 12 May, 1983 and at 12 per cent for the subsequent period. There was no provision in the Act to permit the importer to pay duty on imported goods in instalments. A leading textile manufacturer, having a bonded-ware house in a Custom Collectorate, imported polyester and nylon yarn during 1982 and cleared the goods ex-bond for home consumption between 22 July, 1982 and 25 October, 1982. Out of the customs duties leviable on the imported goods, the manufacturer paid only duties leviable under notification dated 1 March, 1978 at the time of clearance of goods. In pursuance of the Delhi High Court's Stay Order dated 19 July 1982, the importer executed a bond for the disputed amount of Rs. 31.28 crores not paid by it and also furnished a bank guarantee. Though the Delhi High Court vacated the stay order in November 1982 and the importer's liability to pay Government dues in terms of the bond already executed under Section 59(1) of the Act arose immediately, the department did not take action to enforce that liability by issuing a simple notice by enclosing a challan for payment of duty. Instead, the department issued a demand under Section 28 of the Customs Act, 1962 and acquiesced in the procedure followed by the importer for paying the

** 155th Report (1982-83) and 198th Report (1983-84) Seventh Lok Sabha.

@ Para 3.42 of AR 1986-87 (No. 5 of 1988).

dues in 138 instalments over period of two years between 17 December, 1982 and 18 December, 1984, although the Act did not permit payment of dues in instalments by the importer. The incorrect procedure followed by the importer and acquiesced in by the department resulted in postponement of payment of duty of Rs. 31.28 crores. Interest on delayed payments of duty, leviable as per aforesaid bond was not collected which resulted in loss of Rs. 3.03 crores to the Government. In February 1987 the department stated that interest was not leviable because there was no order to that effect from the Court, which was not acceptable because specific order of the court for charging interest was not necessary and interest was chargeable by the department for the delayed payment of duty in 138 instalments over a period of two years in pursuance of the bond executed under section 59 of the Act. In December 1987 the Ministry of Finance stated that though stay order given by the Delhi High Court was vacated, the matter was still pending in the Delhi High Court and the Court did not require the importer to pay interest on the disputed amount either at the time of granting stay or at the time of vacating it. The Ministry's reply was not acceptable because the court did not order payment of duty in 138 instalments over a period of two years. The fact remains that there was no authority in the Custom Act 1962 enabling the Customs Officers to collect duty in instalments. Further, the procedure followed in issuing a demand under Section 28 of Customs Act 1962 consequent upon the vacation of stay was also clearly irregular.

The PAC examined the para* and desired to fix responsibility for the missing communication from the collectorate and failure of the Board to advise the Collectorate on the clarification sought as to whether duty which was not paid during the period of operation of the stay could be recovered in view of recalling the stay order by the Court on 10th November, 1982 and recommended evolving a better system of maintenance of records and prompt and effective way of disposal of such enquiries from the field formations. The Law Secretary, during his evidence, opined that the payment obligation in the bond and bank guarantees ought to have been linked to the vacation of the stay. The PAC expressed its displeasure on the acceptance of bond and bank guarantee by the department overlooking the interest of revenue and recommended standardisation of the format of lease bond and bank guarantees. The Committee felt that the preferential treatment given to the company in not demanding interest from them on the belated payment of customs duty, vis-a-vis an identical fees of M/S Sadanand, when department demanded interest on this account, was highly

* 151st Report of PAC (1988-89) presented on 19th April 1989.

improper and deplored it. During evidence, when Law Secretary deposed that court can be moved to decide on dividend of interest, the Finance Secretary agreed to take action. The Committee also desired for arranging early listing and expeditious disposal of nearly 1000 cases regarding the dispute about inclusion of landing charges in the assessable value which involved approximately customs duty of Rs. 66 crores filed in various High Courts all over the country.

DIRECT TAXES

(i) The definition of the term 'income' was enlarged (in the Finance Act, 1987) to include any sum received by the employers from employees as contribution to any fund for the welfare of such employees, which curbed the tendency on the part of the employer to delay payment of dues recovered from the employees for such welfare funds**

(ii) Deductions on account of any tax or duty under any law, contribution to any provident fund, superannuation fund, gratuity fund or any other fund was allowed as business expenditure only in that previous year in which the sum was actually paid, irrespective of the method of accounting employed by an assessee*

(iii) A new section 44 C was inserted$ in Finance Act, 1984 which laid down ceiling limits for the deduction of head office expenses in computing the business income of non-resident tax payers to avoid manipulations of the incidence of tax by inflating claims in respect of head office expenses.

(iv) With a view to ensuring that the book of accounts and other records of the assessee faithfully reflected the income of the tax payer and the claims for deductions were commonly made, compulsory audit of accounts for tax purposes was introduced@ by inserting Section 44 AB in the Finance Act, 1984 to check fradulent practices and facilitate easy checking of accounts by the ITOs.

(v) At the instance of Audit, the definition of 'transfer' appearing in Section 2(47) of the Income Tax Act, 1961, was enlarged by an amendment to the Act in 1984, to cover conversion of capital asset into stock-in-trade of the business by the owner.

(vi) With a view to securing the aggregate deduction in respect of tax concessions admissible under the I.T. Act did not result in reducing

** AR 1976-77 Para 19.5 of 110th Report of PAC (VIth Lok Sabha) and 21st report of PAC (VIIth Lok Sabha).

* AR 1976-77.

$ para 9.13 of 176th Report of PAC (VIth Lok Sabha) and para 3.38 of 187th Report (VIth Lok Sabha).

@ AR 1979-80.

the total income of companies to nil (nil tax paying companies) before the grant of these concessions, though the companies progressed and made sufficient book profits, the Finance Act inserted$$ Chapter VI-B in the Act for placing a restriction on deduction in the case of these companies. Under this new section where the aggregate admissible deduction exceed 70 per cent of the total income, the deductions were limited to 70 per cent of the total income

(vii) With a view to prevent misuse of entities like partnership firm etc. in order to escape liability from tax, sub-section (3) and (4) of the Finance Act, 1987 was added. The effect of these amendments was that the profits or gains which arose from the transfer of capital asset by a partner to a firm became chargeable as the partner's income of the previous year in which the transfer took place. Similarly, profits and gains arising from the transfer of capital assets by a firm to partner on dissolution or otherwise were also chargeable as the firm's income in the previous year in which the transfer took place*.

(viii) Relying on a number of High Court decisions that E.S.A. was to be allowed only on the basis of the actual number of days the machine had worked extra shifts, Audit had objected to the full allowance of E.S.A. even if the concern as a whole worked extra shift year after year and cases of irregular allowance of E.S.A., not conforming to the judicial decisions were pointed out. Besides, a number of mistakes in the allowance of the several other types of depreciation *viz.,* initial depreciation, additional depreciation, extra depreciation, etc. were also reported year** after year. With a view to simplifying the procedure of allowing depreciation and reducing the scope for mistakes as highlighted in the reports, the rates of depreciation were revised upwards and only 3 rates namely 33-1/3 per cent, 50 per cent and 100 per cent were prescribed for plant and machinery and with the enhancement of these rates the extra shift depreciation allowance was abolished by Government.

(ix) No deduction on account of investment allowance was admissible to machinery used in processing Cinematography films, which was listed as a non-priority item in the Eleventh Schedule to the I.T. Act. It was pointed out in Audit@ as that the cinematograph films catered to the various needs in vital fields like medicine, communication, education, etc., there was a case for their exclusion from the list, to entitle the production units for investment allowance and suitable amendment was made.

$$ AR 1981-82, Para 105 of 217th PAC Report (VIIth Lok Sabha).

* Para 3.12 of AR 1983-84.

** Para 2.17 of AR 1982-83, Para 2.24 of AR 1983-84; Para 2.26 of AR 1984-85 and Para 2.37 of AR 1985-86.

@ Para 2.39(ii) of AR 1985-86.

(x) On a review of the functioning of the valuation cell in the Audit Report 1985-86$, PAC desired@@ enforcement of discipline on registered valuers. A new section (Sect. 34 AE of W.T. Act) in the Finance Act, 1988 which came into effect from 1st June, 1988 required that all the existing registered valuers should make an application for fresh registration and also provided that all pending application as on 1st June, 1988 would be deemed to be new applications for the purpose of this section.

(xi) In making summary assessment of the total income or loss the I.T.O. was required to rectify any arithmetical errors in the returns, accounts and documents, allow such deductions and reliefs *prima facie* admissible but not claimed, disallow such reliefs and deductions prima facie not admissible but claimed in the return and give effect to certain expenditure, set off of c/f losses, unabsorbed depreciation, etc. The allowance of reliefs correctly admissible but not claimed and disallowance of incorrect deductions, etc. made in the return were deleted by Finance Act (No.2) 1980, which led to abuse of the scheme by the assessees. The procedure of summary assessment scheme was reviewed* in audit in September 1987 which highlighted the gross abuse of the scheme particularly in the area of allowances and deductions as well as the failure of the Government to take remedial action on the audit objection on the plea that no remedial action was necessary in summary cases as revenue loss was consciously suffered by government. Government introduced the checks by again amending Section 143(1) of the Act by Direct Taxes Laws Amendment Act, 1987 and I.T.Os were required to allow such deductions, reliefs, etc. *prima facie* inadmissible deductions, while making summary assessments.

(xii) The Public Accounts committee examined** delay in furnishing replies to paras/reviews included in the Audit Reports 1984-85 to 1987-88. "The Committee are concerned to note that at the Board's level also, timely action is not taken even in respect of important cases that are reported to the Board and replies to only 371 draft paragraphs out of 1193 paragraphs proposed for inclusion in the CAG's Audit Report were furnished before the Audit Report was finalised for presentation to Parliament. It is also unfortunate to note that till November 1988, replies to only 612 paragraphs had been furnished to Audit. The reasons given *viz.* objections relate to far flung areas, non-availability of data with Board, etc. are not tenable because of the

$ Para 1.5 of AR 1985-86.
@@ 116th report of PAC (VIIIth Lok Sabha).
* Para 31 of AR 1986-87.
** 115th Report of PAC (VIIIth Lok Sabha).

present level of communication facilities available in the country and at best, such causes can account for a week or fortnight's delay. The Committee recommend that the existing procedure need to be tightened and dilatory practices need to be speeded up sufficiently to ensure that replies to audit paragraphs are invariably furnished within the prescribed period of six weeks from the date of issue. In case of failure to do so and to explain the reason therefor adequately, the concerned officers should be penalised for their lapses in accountability".

IMPACT ON STATUTES

Some of the comments included in the Audit Report which led to changes, modifications in statutory rules and regulations are given below :

(i) On examination of paras on Wealth Tax,* the Committee pointed out the various techniques adopted by the large industrial houses to avoid tax, and cited a case of an industrial house whose assets, as per its book value, increased from Rs. 88.44 crores in 1972 to Rs. 136.96 crores in 1977. The market value of the total assets of the group was estimated at Rs. 520 crores as against the book value of Rs.136.96 crores. The ultimate control and ownership of the total assets in the group rested with about 25 individuals. The group created over 1600 private trusts to avoid wealth tax on a huge scale. The trusts were created in such a way that the applicability of Section 64 of the Income Tax Act on the basis of cross transfer of assets was rendered impossible. As a result, the Group had been able to reduce its contribution to the National Exchequer in the form of wealth tax to merely Rs. 4-5 lakhs per year. The Committee also pointed out that the multitude of legal provisions, modes of valuation and valuation authorities for the valuation of self-same properties, had created a situation where property taxes had become a matter of great harassment as well as abuse. While unscrupulous people were able to evade payment of Central, State as well as local taxes with impunity, the honest tax payers were harassed by different tax as well as valuation authorities. The Committee recommended that Government of India should, in consultation with State Governments, arrive at a common principle of valuation for all property taxes in the country and set up an autonomous valuation authority free from departmental or extraneous influences which should apply the afore-mentioned common principle of valuation and determine objectively the values of all real properties at least in the urban centres in the country. The Committee expressed the view that both in its design as

* Para 4.02, 4.06(1), 4.07(i) and (ii), 4.08 (i) and 4.09 of AR 1979-80 - Vol. II - Indirect Taxes.

well as administration the Wealth Tax Act had failed to achieve the very socio-economic objective of building up an egalitarian society. In fact, it was incapable of achieving such objectives in its present form and substance. It was more of a liability than otherwise to Government. In the opinion of the Committee, the advisability of the continuance of the existing Wealth Tax Act needed an indepth and objective examination.

(ii) While examining paras* on Direct Taxes - Irregular Exemptions and Reliefs and Wealth escaping Assessment, the Committee was informed during evidence, that as many as 15,000 trusts had asked for exemption under Section 11 of the Income Tax Act during the year 1980-81 alone, and the Committee has desired** that Trust Circles should be set up in all towns, where sizeable number of such trusts had been registered, so as to provide effective supervision over their activities.

(iii) On a para@ on 'Irregular Allowance of Contribution to Scientific Research' for the purpose of exemption from Income Tax, the PAC$ pointed out that as till recently, the prevailing system was to give long term/perpetual approvals for research work and there were no periodical/annual reviews of the work done by approved institutions and it was difficult to take how far the exempted funds had been utilised for the intended purposes or diverted to other purposes. However, a statement of 40 institutions, whose approvals had been with drawn in recent years, made shocking revelations. According to the committee, some of the approved institutions, which had enjoyed exemption under Section 35 for as many as 25 years and even more had not done any research work whatsoever. Some of these institutions, when asked to submit the annual return indicating the scientific research activities being conducted by them, had not given any reply. In the case of one institution, which was approved in February 1965 for exemption and de-recognised in August 1980, the letter asking the Institution to submit annual return indicating the scientific research activities conducted by it was returned by the postal authorities as no such Institution existed. The Committee desired Government to effectively prevent misapplication of resources of scientific research institutions for non-research purposes and also to rationalise and simplify the provisions of the Act.

(iv) The PAC examined para* on irregular exemptions and reliefs and wealth escaping assessment and stated that the postponement of the operation of the Taxation Law Amendment Act, 1975, which provided

* Para 3.12(b), 4.04(1) of AR 1979-80 Vol. II Direct Taxes.
** 144th Report of PAC (1982-83).
@ Para 2.21 of AR 1980-81 - Vol. II. Indirect Taxes
$ 174th report of PAC (1983-84) VIIth Lok Sabha.
* Para 3.12(i) and 4.04(i) of AR 1980-81 Revenue Receipts - Vol. II.

that the income of trusts would lose exemption from tax if their funds continued to remain to be invested or deposited in any form other than those specified in Section 13(5) of the income-tax Act on or after 1 April, 1978, has enabled the big industrial houses to siphon off large incomes and wealth using the media of trusts as a safe and honourable device to avoid tax liability. Proliferation of trusts on an unprecedented scale in recent years, particularly by large industrial houses was an eloquent testimony to this. The Committee desired that the loophole in the present Act left out the investments made by institutions notified under Section 19(23C) (iv) and (v), should be plugged immediately. The Committee considered that by granting exemptions liberally and for indefinite period, Government have not only gone beyond the intention of Parliament, but also clearly out-stepped the limits of delegated legislation. As such, all these notifications were clearly *ultra vires*, illegal and hence ineffective. The Committee desired** a thorough review to be carried out without delay in all cases where indefinite exemptions have been granted to trusts and institutions under Section 19(23C) (iv) and (v) of the Income Tax Act so as to ensure that they are either taxed according to the normal law or where justified, covered by proper notifications. In future all exemption notifications should be vetted by the Ministry of Law and placed on the Table of the House as required under Section 196 of the Income Tax Act. The Committee also recommended that the question of deleting sub-sections (iv) and (v) of Section 10 (23C) of the Income Tax Act should be considered forthwith with out waiting for the final report of the Economic Administration Reforms Commission (Jha Commission). The Committee considered it necessary to bring trusts other than those of national importance for which the provision was initially designed within the discipline of the law contained in Section 11 to 13 of the Act.

(v) The PAC examined para* on "Acquisition of immovable properties" and found that as against over 77 lakh intimations of sale/transfer of properties received from the Registering authorities during the period 15th November, 1972 to 21st March, 1983, and 53,310 notices issued during the same period, the number of properties actually taken over by the Department so far was merely 15 and pointed out that if the Department wanted to make the provisions of Chapter XXA truly deterrent, it was imperative that once acquisition proceedings were initiated, they should be pursued to their logical conclusion. The total

** 144th Report of PAC 1982-83.

* Para 1.18 of AR 1981-82 - Revenue Receipts Vol. II and 211th Report of PAC (1983-84).

number of intimations in form No. 37G received in all the 29 acquisition ranges from 15th November, 1972 upto 31st March, 1983 was 77.17 lakhs, which had necessarily to be scrutinised within 9 months. After the Committee drew the attention of the representative of the Ministry during evidence to the need for eliminating unproductive work in handling a large number of relatively smaller cases, Finance Bill (No. 11), 1984, was introduced. The Bill sought to amend with effect from 1st June, 1984, the provisions of the Act by raising the monetary limit from Rs. 10,000 to Rs. 25,000 in respect of intimations in form No. 37G. While expressing satisfaction at the proposed move, the Committee hoped that appropriate administrative measures would also be taken with a view to eliminating unproductive work.

The Committee, however, regretted to observe that in Madhya Pradesh all the 56 cases referred to in the Audit paragraph had to be dropped, as reasons for initiating the acquisition proceedings had not been recorded, as required under the proviso to Section 269C of the Act. In eight of the dropped cases, the fair market values were substantially in excess of the apparent consideration, *i.e.* Rs. 25.60 lakhs as against Rs. 8.84 lakhs. The Committee took a serious view of this lapse and was informed that on discovery of these cases, the Board issued instructions in May 1983 drawing attention of the competent authorities to the mandatory provisions of the Act regarding recording of reasons in writing, with direction to invariably record reasons in writing before initiating proceedings for acquisition and expressed the hope that the Board would ensure strict compliance of the instructions issued by them in this regard by the competent authorities. The committee expressed concern over the phenomenal increase in the pendency of acquisition cases on 31st March, 1983 as against 8,237 cases on 1st April, 1979 and as many as 1120 cases were such wherein no pursuance action was taken for over three years and suggested to Government to consider the feasibility of imposing a statutory time-limit for the disposal of acquisition orders.

(vi) The Public Accounts committee examined para* on outstanding audit objections and made certain recommendations. The Committee regretted to note that as on 31st March, 1987, as many as 99,035 audit objections raised by Internal Audit as well as Statutory Audit with a revenue effect of Rs. 558.81 crores were pending without settlement and felt that procedure for taking action on the audit objections was most unsatisfactory. It was unfortunate that adequate attention had not been given to prompt settlement of audit objections and a very large number of objections with a considerably large tax effect continued to be

* Para 2.20 of AR 1986-87 (No. 6 of 1988).

outstanding for want of settlement and desired to know the measures taken for reducing them expeditiously. The utility of creating additional posts for settlement of outstanding audit objections was required to be reviewed to ensure that they were fully justified. On an average the number of outstanding cases per assessing officer was around 60 only and felt the need to draw up a time bound programme for settlement and the C.B.D.T. has to ensure the implementation of targets fixed by them in clearance of outstanding objections and report the action taken on clearance of outstanding objections to the Committee. The existing procedure was required to be tightened and dilatory practices needed to be speeded up sufficiently to ensure that replies to audit paragraphs were invariably furnished within the prescribed period of six weeks from the date of issue and in case of failures, the concerned officers should be penalised for their lapses in accountability.

LIST OF ABBREVIATIONS

1.	AAO	— Assistant Audit Officer
2.	ADAI	— Additional Deputy Comptroller and Auditor General
3.	ADAI (HQ)	— Additional Deputy Comptroller and Auditor General (Headquarters)
4.	ADAI (Rec.) Audit)	— Additional Deputy Comptroller and Auditor General (Receipt Audit)
5.	AG	— Accountant General
6.	AG(Au)	— Accountant General (Audit)
7.	AGCR	— Accountant General, Central Revenues
8.	AO	— Audit Officer
9.	AP	— Andhra Pradesh
10.	CAG	— Comptroller and Auditor General of India
11.	CBDT	— Central Board of Direct Taxes
12.	CBEC	— Central Board of Excise & Customs
13.	CCCN	— Customs Cooperation Council Nomenclature
14.	CE	— Central Excise
15.	CIT	— Commissioner of Income Tax
16.	CRA	— Customs Revenue Audit
17.	DA	— Director of Audit
18.	DA(C)	— Director of Audit (Central)
19.	DAG	— Deputy Accountant General
20.	DAG(OAD)	— Deputy Accountant General (Outside Audit Department)
21.	DEEC	— Duty Exemption Entitlement Certificate
22.	DRA	— Director of Revenue Audit/Director Receipt Audit
23.	ESA	— Extra Shift Allowance
24.	HP	— Himachal Pradesh
25.	IAC	— Inspecting Assistant Commissioner
26.	IA & AD	— Indian Audit & Accounts Department
27.	IA & AS	— Indian Audit & Accounts Service
28.	ITO	— Income Tax Officer
29.	J&K	— Jammu & Kashmir
30.	LDC	— Lower Division Clerk
31.	Mah	— Maharashtra
32.	MODVAT	— Modified Value Added Tax
33.	MP	— Madhya Pradesh
34.	OSD	— Officer on Special Duty
35.	RAD	— Revenue Audit Department
36.	SAI	— Supreme Audit Institution
37.	SAS	— Subordinate Accounts Service
38.	SO	— Section Officer
39.	SSI	— Small Scale Industry
40.	TN	— Tamil Nadu
41.	TUA	— Total Under Assessment
42.	UK	— United Kingdom
43.	UP	— Uttar Pradesh
44.	UDC	— Upper Division Clerk

SOURCES AND REFERENCES

1. Revenue Audit Manuals (All Editions)
   — Income Tax
   — Wealth Tax

- Gift Tax
- Other Direct Taxes
- Central Excise
- Customs

2. Report of the Committee on Reorganisation headed by Shri A.K. Mukherji, Deputy Comptroller and Auditor General.
3. Brochure on Receipt Audit brought out by the Revenue Audit Wing of Headquarters Office
4. Audit Report of Union Government (Civil) for 1962.
5. Audit Reports of Union Government (Revenue Receipts) 1963 to 1989 — Direct Taxes and Indirect Taxes, combined as well as separate reports, on Director Taxes and Indirect Taxes.
6. PAC Reports
   - Proceedings of PAC on the accounts of 1923-24
   - Proceedings of PAC on the accounts of 1925-26
   - Proceedings of PAC on Part II Civil Accounts 1937-38
   - First Report of PAC (1951-52).
   - Second Report of PAC (1967-68) AR 1966
   - 17th Report of PAC (1967-68) on para 59 of AR 1966
   - 29th Report (1967-68) AR 1967
   - 67th Report of PAC 1981-82
   - 73rd Report (1968-69)
   - 110th Report of PAC (VI Lok Sabha)
   - 111th Report (1969-70) on AR 1969
   - 176th Report of PAC (VI Lok Sabha)
   - 187th Report of PAC (VI Lok Sabha)
   - 21st Report of PAC (VII Lok Sabha)
   - 140th Report of PAC (VII Lok Sabha)
   - 144th Report of PAC (1982-83)
   - 155th Report of PAC (1982-83) VII Lok Sabha)
   - 174th Report of PAC (1983-84) VII Lok Sabha)
   - 180th Report of PAC (VII Lok Sabha)
   - 198th Report of PAC (1983-84) VII Lok Sabha
   - 208th Report of PAC (VII Lok Sabha)
   - 211th Report of PAC (1983-84) VII Lok Sabha
   - 217th Report of PAC (VII Lok Sabha)
   - 113th Report of PAC (1987-88) VIII Lok Sabha
   - 115th Report of PAC (VIII Lok Sabha)
   - 116th Report of PAC (VIII Lok Sabha)
   - 151th Report of PAC (1988-89) VIII Lok Sabha
   - 155th Report of PAC (1988-89) VIII Lok Sabha
   - 156th Report of PAC (1988-89) VIII Lok Sabha.

18 Defence Audit

MILITARY AUDIT

The Director of Army Audit functioned since 1926 for audit of army, marine and military works expenditure and the work performed by the Military Audit Department was fashioned more or less on the lines similar to the audit conducted by the Comptroller and Auditor General in the United Kingdom. He was assisted by a Deputy or an Assistant Director in each Command for carrying out the test audit of the field Controllers and the units and formations in the Military Department. Under Rule 25 of the Auditor General's Rules, the Auditor General prescribed the form in which the accounts were to be submitted to him for inclusion and for audit and also decided the nature and scope of the audit to be conducted. Accordingly, concurrent audit was carried out by the test audit department to ensure that the accounts of the Army, as included in the Finance and Revenue Accounts, portrayed a correct presentation of facts and represented "that money has been spent as it is shown to have been spent". Mr. A.G. Barr in his preface dated 4th May, 1926 to the first manual issued for the guidance of the officers, accountants and auditors of the Military Test Audit Department summed up the lessons for the practitioners in the Test Audit Department. "Every auditor must get a sound knowledge of the nature of the expenditure that he is test auditing, of the constitution and functions of the Military Accounts Department and of the general organisation of the Army. Without this knowledge, no auditor can expect to develop that instinct for essentials, without which a high standard of efficiency in this particular branch of work cannot be reached".

Test audit covered the whole area of expenditure, primarily to examine the whole field of work done by the Military Accounts Department, and its effectiveness in nature and promptness in operation. Test audit or the routine audit of the accounts of Controller was carried out centrally in the prescribed manner. Local test audit of the Command units, arsenals, supply depots, grass farms, remount depots, mechanical transport and stores units, heavy repair shop, dairy farms, supply formations of all sorts connected with embarkation at Bombay, embarkation supply depot, Karachi, army bakeries, hospitals, medical store depots and local audits etc. at Simla was carried out. Detailed instructions for routine test audit of the sections of the Controller of Military Accounts Offices and the field units and formations were laid down in the manuals issued from time to time and third Edition published in 1939 was in force at the time of the independence, which further elaborated the details of audit processes to be applied by the Central and local audit staff. The new chapters were on Officers, Transportation, Local test audit of the MES Offices, Railways, Passage, General provident fund and other funds and production accounts, instructions for audit of Royal Air Force Accounts and special instructions for the test audit of the Office of the Controller of Naval Accounts, Instructions for audit of Medical Stores Depot and Work shops, Okara Farms, Young Stock Farms, Butcheries, local test audit of miscellaneous units and formations and the accounts of Royal Air Force units, Royal Air Force Parks and Depots, Contracts Directorate and local test audit of the accounts of Royal Indian Navy Offices, Bombay and on Board His Majesty's India Ships.

One of the seniormost officers of the IAAS held the post of DADS, whose counsel was availed of by the CAG of India in administering the Department. Shri S.C. Gupta was the DA in 1947. Till 1989, 32 officers held office for tenures ranging from 1 month to 42 months, held by Shri G.N. Pathak from July 1980 to December 1983. The organisation and composition of the Defence Audit Department was closely patterned on the internal finance and accounting organisation of the Ministry of Defence and the three services and allied departments.

FINANCE AND ACCOUNTING

Consequent on re-designation of the Military Accounts Department as the Defence Accounts Department in October 1951, the Controllers of Military Accounts were redesignated as Controllers of Defence Accounts and the designation of the Military Accountant General was changed to Controller General of Defence Accounts. The Defence Accounts Department was under the administrative control of the Ministry of Finance (Defence), the control being exercised by the Financial Adviser, Ministry of Finance (Defence), who functioned in the dual capacity, of the principal representative of the Ministry of Finance in the field of defence expenditure and as the Chief Accounting Officer for the Defence Services. He was responsible for the preparation of the Appropriation Accounts and for the financial control of the expenditure to which those accounts related. The Controller General of Defence Accounts was the Head of the Department and functioned on behalf of the Financial Adviser, Ministry of Finance (Defence), as the chief authority in all matters affecting internal audit and accounting in respect of expenditure pertaining to the Defence Services. The main duties and functions of the Defence Accounts Department centred around maintenance of the pay accounts of Commissioned Officers and Other Ranks of the Army, payment and internal audit of all charges pertaining to the Armed Forces, including bills for supplies and services rendered, pay and allowances, miscellaneous charges, pensions, works, etc., the accounting for and adjustment of receipts, and of all expenditure pertaining to the Defence Services, and supply of compiled figures to the administrative and financial authorities for the purposes of budgeting and control of expenditure, internal audit of store accounts maintained by units and formations (including ordnance depots, workshops and storage depots) of the Army, Air Force and Navy, maintenance of the store and manufacturing accounts of Army Ordnance and Clothing Factories and Naval Dockyard and maintenance of certain accounts relating to the Military Engineering Services (MES) and the audit of the construction and other accounts relating to engineering services kept by the MES authorities. The organisation of the Defence Accounts Department corresponded broadly to the organisation of the three Services, which had three Army Commands, two Air Force Commands and one Navy command in 1950. The budgeted outlay of the Defence Services was around Rs. 200 crores and the expenditure of the Defence Accounts Department was Rs. three crores, which constituted 1.5% of the Defence budget. There were over 10,000 employees in 1950. While the soldiers' pay accounts numbered 2.5 lakhs, the number of pensioners was 5 lakhs. On the recommendations of the Pay Accountancy Committee set up during the 2nd World War, IRLA system was introduced for maintenance of the pay accounts of the Armed Forces personnel which eliminated central maintenance of accounts, preparation of pay bill by one agency and its checking by another and by the time the system was installed the number of IRLA accounts rose to 3.33 lakhs. Mechanisation of accounts by Hollerith machines for speedy compilation was in vogue in the Department from 1931. By 1952, there were 9 Controllers of Defence Accounts, one each at Eastern Command, Patna, Southern Command, Poona, Western Command, Meerut, Pensions, Allahabad, Factories, Calcutta, Other Ranks, Secunderabad, Officers, Poona, Air Force, Dehradun, Navy, Bombay and a Joint Controller of Defence Accounts, Patna. The allotment of work in the various offices conformed to the pattern prescribed by the Controller General of Defence Accounts (CGDA). The duties and responsibilities of the CGDA and the Controllers were laid down in the respective manuals. The CGDA was responsible for accounting and internal audit systems and procedures relating to the Defence Accounts Department. He prepared an annual consolidated Balanced Account of Defence Services Receipts and Charges and sent it to the Director of Audit, Defence Services for checking and furnishing the audit certificate. He also prepared certain subsidiary statements in connection with the

Appropriation Accounts laid down in the Defence Audit Code for the Financial Adviser, Ministry of Finance (Defence) and furnished annually a certificate on the accounts of the Defence Services to the Financial Adviser. He prepared the portion of the Combined Finance and Revenue Accounts pertaining to the Defence Services and sent it to the CAG of India for incorporation in the Combined Finance and the Revenue Accounts of the Central and the State Governments in India. The summary of transactions pertaining to the Defence Services was prepared and sent to the Accountant General, Central Revenues through the Deputy Financial Adviser (Budget), Ministry of Finance (Defence) for incorporation in the Annual Finance Accounts of the Central Government. The Controllers not only functioned as accounting, disbursing and internal audit authorities but also acted as the Financial Adviser to the GOC-in-Chief of the Command as well as to the Area and Sub-Area Commanders in their respective jurisdictions.

DIRECTOR OF AUDIT DEFENCE SERVICES

The Director of Audit, Defence Services who was responsible for the audit of the expenditure relating to the Ministry of Defence, Army, Navy, Air Force and Ordnance Factories in the 1950s had his headquarters at New Delhi and was assisted by a Deputy and Assistant Director and a Deputy Director each at Poona and Meerut, an Assistant Director each at Bombay, Calcutta and Dehradun and an Audit Oficer each at Allahabad and Patna. The strength of the Defence Audit Department in 1950 was 284 - 7 IAAS Officers, 12 Assistant Audit Officers, 60 SAS Accountants, 179 UDCs, 4 Stenos, 22 LDCs/Typists. Audit of all sanctions of the Ministries of Defence and Finance (Defence) was carried out by the Director at headquarters. All codes and regulations issued for the guidance of the Military Accounts Department were scrutinised by him. From 1953, he was also required to carry out the audit of the stores at the Army Headquarters, Air Headquarters, Naval Stores office at Bombay and Director General of Ordnance Factory, Calcutta. His office was organised functionally into four sections namely, Administration, engaged in matters pertaining to administration and establishment of the Department; Audit I, dealt with cases relating to pay, leave, pension, passage and travelling allowances and scrutiny of rules, regulations etc., of the services; Audit II, dealt with works, stores, accounting and miscellaneous matters, and Accounts and Report Section, dealt with Appropriation Accounts, Audit Reports, Commercial Appendix to the Appropriation Accounts, Finance and Revenue Accounts and the Consolidated Balanced Accounts of the Defence Services.

COMMAND OFFICES

The jurisdiction of each Command Officer for central and local test audit closely conformed to the accounting jurisdiction of the Controller of Accounts of Military Accounts Department. The DDA (DS), Poona conducted the central test audit of the accounts of Command Controller of Military Accounts, Southern Command, Poona and Field Controller of Military Accounts (O & CH), the local test audit of all the Army Factories in the Southern Command, the local test audit of Army, Air Force formations and Field Pay Offices in Poona, Bangalore, Madras, Secunderabad Jabbulpore and Sub-Areas (except MES formations in Jabbulpore Independent Sub-Area) and the audit of the Indian Institute of Science, Bangalore. The ADA (DS), Bombay carried out the central test audit of the accounts of Controller of Naval Accounts, Bombay, local test audit of Naval units and formations in the Southern Command, and the local test audit of Army (including MES) and Air Force units and formations in Bombay Sub-Area and MES formations in Jabbulpore Independent Sub-Area. The test audit of the accounts of the landed property of the Government of India in Bombay on behalf of the Accountant General, Central Revenues and the inspection of the Accounts of the Canteen Stores Department (India) was also carried out by him. The DDA (DS), Meerut conducted the central test audit of the accounts of Controller of Military Accounts, Eastern Command and Western Command, local test audit of all the Factories in the Western and Eastern Command, excluding those in Calcutta Industrial Area, the local test audit of Army and Air Force units and formations and Field Pay Offices in Delhi Area (except those included under Assistant Director of Audit, Ambala - Lucknow Sub-Area excluding Army and Air Force units at Lucknow and Kanpur Stations but including IRLA in Depots and Regimental Centres) and Meerut Sub-Area (excluding Sharanpur - Dehradun line). The local test audit of Naval Headquarters, Army Headquarters and the documents in the office of the Financial Adviser (Defence) was carried out by him. The priced vocabulary rates and amendments thereto in respect of Ordnance stores, MES stores, A.S.C. stores, Medical stores, Air Force stores and Naval stores was checked by him annually in the offices of the Deputy Financial Advisers concerned. The central test audit of the accounts of Joint Controller of Military Accounts, Patna and the local test audit of the Army and Air Force units and Field Pay Offices in Bihar, Orissa and Calcutta Sub-Area (excluding Darjeeling and Calcutta Industrial Area and north of West Bengal) was carried out by the AAO (DS), Patna. Central test audit of the accounts of the Controller of Military Accounts (Pensions), Allahabad, and local test audit of Army and Air Force units in Allahabad Sub-Area and Lucknow and Kanpur Stations except Individual Running Ledger Accounts in Depots and Regimental Centres was conducted by the AAO (DS), Allahabad. The central test audit of the accounts of Controller of Army Factory Accounts, Calcutta, local test audit of the accounts maintained by all the Army Factories in Calcutta Industrial Area and the local test audit of Army and Air Force units and Field Pay Offices in Shillong Independent Sub-Area, Calcutta Industrial Area, Darjeeling and north of West Bengal was the responsibility of the ADA (DS), Calcutta. The ADA (DS), Ambala was entrusted with the central test audit of the accounts of CDA, Air Force, Dehradun and FCMA (O.Rs), Ambala, local test audit of Army and Air Force units and Field Pay Offices in Eastern Punjab (Ambala Sub-Area and Pathankot L of C Sub-Area) and in all stations on Saharanpur-Dehradun line and the local test audit of the accounts of Air Headquarters, Air Force units in Delhi and Palam, Central Accounts Office, I.A.F., New Delhi, the War gratuity claims of I.A.F. officers at New Delhi. He also carried out the test audit of the accounts maintained by the Military Accountant General, Pay Sections,Simla, and checked annually the sale/issue rates of dairy produce in the Q.M.G's Branch (Farms Directorate), Simla.

The main functions of the Command Officer were examination of the principles, methods and procedures followed in the maintenance of the accounts by the Executive and the Military Accounts Department to bring up important points deserving special attention, visits to defence units and formations to gain first hand knowledge of their practical working, control and supervision of the work of the various test audit parties, scrutiny of test audit reports for further action, supervision of central audit work and its improvement, disposal of the work of local test audit reports and furnishing material for the annual Audit Report of CAG. The duties and functions of the central sections and local test audit parties under each Command Officer were spelt out.

The need to conduct higher audit, while carrying out central and local test audit was recognised. It was imperative that statutory audit should be on the look out for cases of extravagance, waste or unsound financial procedure noticed during day to day work or through Controller's reports or other documents. The points noticed during local audit were not included in the inspection report but were discussed with the executive officers or CDA concerned at the level of the Command Officer and the results were communicated to the Director.

TEST AUDIT OF FACTORIES

To ensure uniformity in the method of test audit and to meet the requirements of the Director of Audit, Defence Services in the preparation of his audit comments to be incorporated in the Commercial Appendix to the Appropriation Accounts of the Defence Services, a Manual containing general instructions for the test audit of the accounts of the Army Ordnance and Clothing Factories and of the production accounts prepared by the local accounts officers and consolidated in the Office of the Controller of Army Factory Accounts, Calcutta was issued in April 1950 by Shri K.R. Rama Iyer, the then DADS. The Command Officers entrusted with the audit of Army Factories audited the expenditure, the receipts and the stores, examined the manufacturing accounts, statements of assets and liabilities and renewal reserve fund accounts of the factories. Matters of outstanding importance noticed during test audit, which were likely to be of interest to the Public Accounts Committee were included in the Audit Report (Defence Services) and other points noticed during scrutiny of proforma accounts were featured through his Report on the Commercial Appendix to the Appropriation Accounts, Defence services. While individual financial irregularities in contracts, purchase and disposal of stores, wasteful and infructuous expenditure etc. were mentioned in the Audit Report, the comments on manufacturing accounts were included in the Commercial Appendix. Audit was conducted mainly to ensure that the expenditure was within the allotments, was classified under the correct heads of account, was incurred according to the prescribed rules, there was no waste, and the cost accounts reflected truly the financial results of the various operations of the factory. The financial accounts, proforma accounts and the initial accounts were test-checked during audit.

The audit of the accounts of the factories was carried out in four stages, namely, local audit of the accounts of individual factories maintained by the Accounts officers, the Factory Management, and the Technical Development Establishments; local audit of the Principal Ledgers and the Annual Accounts prepared by the Accounts Officers; audit of receipts and expenditure on pay, travelling allowance, contingencies, stores and the Renewal Reserve Fund, etc., dealt with in the office of the Controller of Army Factory Accounts, Calcutta; audit of the consolidation of the Annual Accounts of all the factories carried out in the office of the Controller of Army Factory Accounts, Calcutta and scrutiny of the critical review on the working of the factories prepared by the Controller of Army Factory Accounts, Calcutta. The audit was conducted in accordance with the orders issued by the Government of India and the rules and regulations of general applicability to factories embodied in various government publications. Orders and instructions relating to the factories having a financial bearing issued from time to time by the administrative and financial authorities and the accounting procedures introduced by the Controller of Army Factory Accounts in consultation with administrative and financial authorities were carefully studied and applied in audit. The accounts prepared by the Local Accounts Officers were scrutinised to ensure that they were prepared correctly in accordance with the cost accounting principles. Points to be investigated under each class of transactions/category of expenditure - Labour, Materials, store accounts, costing, Renewal Reserve Fund accounts, Principal Ledger and Consolidated Annual Accounts etc. - were laid down. Draft paras relating to Army Factories for the Audit Report, Defence Services were drafted as per the instructions of the DADS.

The consolidated Annual Accounts, which summed up the individual accounts of each factory and were included in the Appropriation Accounts, were checked carefully with corresponding individual accounts to ensure that the summation was correct. Individual accounts were checked with the Principal Ledgers and the DADS stated in the Commercial Appendix to the Appropriation Accounts that the individual accounts were audited and would be available to the Public Accounts Committee, if required. The Command Officer, Calcutta sent the report on the Consolidated Manufacturing Accounts and the Audit certificate to the DADS by 30th November. The report did not deal with the individual irregularities, which, if merited, were included in the Audit Report. In his forwarding letter of the report on the Consolidated Manufacturing Accounts, the Command Officer drew special attention to the paragraphs of the report, which he deemed were important. He forwarded a list of draft paras on the Accounts by the 15th November each year. In sum, the Defence Audit Department ensured to the satisfaction of the CAG primarily, that the accounts of the Defence Services as included in the Finance and Revenue Accounts were a correct presentation of facts and that they represented money that had really been spent in the manner in which it was shown to have been spent. The Department also performed certain functions outside the strict limit of the statutory requirements, for example, advice directed towards effecting economy and criticisms on merits of expenditure, which were inherent functions of audit and were implied in the term "that money has been spent as it is shown to have been spent". The system of audit was concurrent but *post facto* and the technique adopted was test audit of the whole area of expenditure. The scope of audit, both central and local, was defined and the quantum and periodicity was prescribed by DADS.

When a case was considered fit for inclusion in the AR, the Command Officer prepared a draft para and issued it to the CDA for verification of facts. Two copies were sent to the headquarters office of DADS simultaneously with the factual statement of case containing all relevant details about the case. The results of verification of facts by the CDA/Administrative authorities were also communicated to the headquarters office as soon as received. The CDA communicated the results of their verification of facts within six weeks from the date of the issue of the draft paragraphs. The due date of submission of the Audit Report to the CAG was 15th February of the financial year and typed copies were sent by 15th January.

AUDIT RESULTS

Important audit findings were included in the Audit Report (Defence Services) in accordance with the detailed instructions for their preparation. The Director and his Command Officers were personally responsible for all matters connected with the AR and the Commercial Appendix to the Appropriation Accounts. Broadly, the Report was divided into - prefatory remarks, which indicated changes in the year under report, general review of the results of audit - (a) Appropriation Audit and (b) Preliminary remarks, Works expenditure, acquisition and disposal of stores, store accounting, pay, allowances and pensions, general and comments on Appendices to the Appropriation Accounts. The irregularities discovered by audit as well as those brought to light by other agencies were included in the Report. The sources for selection of material for AR were sanctions of the Government of India, results of central and local test audit, reports on important cases of irregularities received by the Command Officers from the Controllers etc., including cases of losses and nugatory expenditure.

The Commercial Appendix to the Appropriation Accounts of the Defence Services dealt with the trading, profit and loss accounts and other accounts of the manufacturing concerns of the Army. The appendix also carried briefly the review of the Financial Adviser and the Audit comments of the Director along with the accounts of the various manufacturing concerns, which were test audited by the Command Officers. Detailed instructions for the audit of the accounts of the factories and submission of the material for the commercial appendix were laid down in the "Manual of Audit of Accounts, Army Factories" issued by the Director. Directions for preparing the draft paras, processing them upto finality and compiling the Report were also issued by the Director. The model followed was the Reports of the CAG of United Kingdom on the Appropriation Accounts, wherever comparable and relevant.

The AR (DS) containing the results of the audit of the accounts of the Defence Services carried out by the DADS was required to be submitted to the CAG who, after counter signature submitted it to the President through the Ministry of Finance for being laid in both Houses of the Parliament in terms of Article 151 of the Constitution. The Report generally contained important financial irregularities noticed in the course of audit of the accounts of the preceding financial year and of previous years which could not be dealt with in earlier Reports. But any irregularity of importance which came to light during current audit was also included. The results of appropriation audit noticed during scrutiny of draft appropriation accounts and the explanations for variations between the grants and the actual expenditure and other material furnished by the Ministry of Finance (Defence) etc. and audit comments were included in the Report. The Report was divided into various chapters, namely, introductory, Appropriation Audit and chapters dealing with the irregularities relating to a particular service or arm of service. Irregularities connected with inter-service organisations, comments on government sanctions etc., were grouped together and included under the chapter heading "Ministry of Defence". Comments on accounting procedure, arrears in internal audit and other cognate matters were grouped together and mentioned under the heading "Ministry of Finance (Defence)". Other matters not involving any financial irregularity but which were considered important to be brought to the notice of the Parliament were included in a separate chapter "Other topics of interest". Introductory portion gave a critical summary of the state of accounts in the Defence Services and spotlighted the important irregularities brought out in the body of the report. Draft paragraphs on deficiencies noticed during scrutiny of contracts were included in the Report. The AR included not only cases of irregularities discovered by the Department but also those spotlighted by other agencies.

GROWTH AND EXPANSION

In 1960, it was reiterated that the audit conducted by the Audit Department was original statutory audit - not a re-audit - and carried the right to audit bills paid more than 12 months earlier, although this was limited in view of the possible decrease in the efficiency and value of audit proportionately with the lapse of time since the transactions took place. Selection for test audit of any account whether fully or partially checked or left unchecked by the Defence Accounts Department was not cent per cent and the general practice was to select for audit a field different from that fully surveyed by the Accounts Department. In the case of accounts subjected to annual inspection by the Defence Accounts Department, where there was a gap of more than 6 months between the date of visit by test audit officers and date of local audit officers' last visit, accounts for a period subsequent to the local audit officer's visit were selected for test audit but it was made clear to the officers commanding the units etc., that test audit was independent of and supplementary to the activities of the Defence Accounts Department.

In central audit, the test audit was applied to the accounts of each section of the office of the Controller of Defence Accounts according to the programme drawn up by the Command Officer and approved by the Director which was called central audit. During local Audit, test audit of the accounts maintained in units and formations was carried out in accordance with the half-yearly programmes prepared by Command Officers and approved by the Director. Not only the extent and quantum of check was prescribed but also the standard speed of audit of various documents, number of mandays to be taken in a year, provision for miscellaneous work and proportion of Accountant's time taken for original audit etc. were laid down in detail.

The Director functioned as the representative of the CAG for conducting the statutory audit of defence transactions. All sanctions of the Ministries of Defence and Finance (Defence) were scrutinised in headquarters office except those relating to ordnance and clothing factories, which were audited by the Sr. Deputy Director of Audit, Calcutta in accordance with the instructions issued by the DADS from time to time. He also carried out the audit of provisioning of stores at Service Headquarters, Naval Stores Office and the office of the Director General, Ordnance Factories, Calcutta but sanctions to the grant of pension accorded by the Government of India were audited by the AAO, DS, Allahabad. The headquarters organisation of the Office of the DADS was arranged on functional basis *viz.* Administration, Audit I, II, III, Accounts, Reports and Provisioning Audit. Detailed audit processes to be carried out by the Central Test Audit groups, particularly the various sections of the CDA's office were laid down in the Manuals. General instructions for the local test audit of the units and formations were also laid down for the guidance of the local audit parties. The primary object of local test audit was to apply a test audit to such accounts and vouchers as were not audited in the Central Office or as could be completely audited only in local audit and to ensure that the initial documents from which the bills and accounts rendered by the local offices were compiled or on which they were based were positively maintained. The officer conducting local test audit not only had a general knowledge of the functions of the units or formations visited to enable him to assess the relation between these functions and the financial procedure but also showed in actual results, by throwing clear light on the records audited the value of the audit appreciation of the financial implications of the transactions, which those records purported to represent. He discussed them with concerned officers and, besides gathering as much information as possible required for the purpose of audit, removed possible doubts on accounting matters serving in general as a financial guide and helper. He also gathered adequate material about defects in the organisation, which led to loss of Government property and enquired into any points, which he felt might cause him anxiety, if he was in charge. The main processes of audit required to be followed by local test audit staff for such type of accounts, as were common to all units and formations, as also the scope of local audit for various categories of transactions, books and accounts were laid down.

A new section for conducting performance-cum-efficiency audit was created in the headquarters office to examine how far the agencies of Government were adequately discharging their financial responsibilities in regard to the projects/schemes undertaken by them. For this purpose, the expenditure incurred on different projects/schemes was to be examined to ascertain whether they were being executed efficiently and the operations conducted economically and they were producing the results expected of them. All projects/schemes in respect of which the original allotments were revised during any year by Rs. 25 lakhs or more and in respect of which the sanctioned estimates were of Rs. 50 lakhs or more were selected by the Director for carrying out the performance review. The Command Officers were also empowered to select projects/schemes considered useful for performance-cum-efficiency audit.

Two more sections were added in the headquarters office *viz.* one extra Audit Section and one Provisioning Audit Section and consequently work of the existing Audit Sections was redistributed. Audit I dealt with all cases relating to Ordnance and Clothing Factories, scrutiny of recovery rates etc. Audit II dealt with scrutiny of financial stock-taking of works/projects, revenue, engineer and medical stores and Navy and scrutiny of the quarterly statements of surplus and obsolete stores received from the Dy. Financial Officer (B). Audit III was engaged in cases relating to Ordnance, A.S.C., E.M.E. and Air Force and recoveries of stores issued to foreign Governments. Provisioning Audit Section conducted test audit of the demands for stores and equipment placed by the various branches of Army, Air Force and Naval Headquarters and by the D.G., A.F.M.S., New Delhi and Director General, Ordnance Factories, Calcutta. The purpose of provisioning audit was to see that (i) the requirements had been correctly worked out in accordance with the directive, that the past recurring consumption, 'dues out', stock, 'dues in' etc. had been correctly taken into account and the demand was placed with the approval of the Ministry of Finance (Defence), (ii) alternative items were grouped together before placing a demand, (iii) in case of costly and permanent items, demands were not placed on the basis of mere arithmetical calculations but with due regard to likely future requirements, (iv) demands for new items and *ad hoc* demands not covered by the provision review directive were placed after obtaining sanction of Government for its procurement and could not be challenged on grounds of propriety, (v) a demand for stores available indigenously was not placed abroad, (vi) any demand marked 'operational' was fully justified and covered immediate requirements only, (vii) in the case of a demand for a particular type and make of an item, the reasonableness of the price was ensured, and (viii) the provision review directive was issued annually by or with the approval of Government after reviewing the policy in regard to reserves, etc. and the provisions made therein were reasonable. A general scrutiny of the provision review forms etc., was also carried out with a view to seeing that action to cancel/reduce the outstanding demands was taken promptly where the surplus, revealed by the review, warranted such action. In cases of large surplus involving large amount, it was seen that the surplus was not due to defective provisioning action in the past. Important items of disposal of surplus and obsolete stores were scrutinised to ensure that there were no rush purchases and hasty discards.

CHANGES IN COMMANDS

The posts of Dy. Directors of Audit, Southern Command, Poona and Ordnance Factory, Calcutta were upgraded to the level of Sr. Dy. Director of Audit by 1960. A new Command Officer of the level of Dy. Director of Audit functioned at Meerut for auditing the accounts of the Western Command and the existing office was entrusted with the audit of Eastern Command; the Assistant Directors of Audit at Bombay, Dehradun and the Assistant Audit Officer at Patna were upgraded to the level of Dy. Directors of Audit. By 1960, the total strength of the Department was 561 - 11 IAAS Officers, 20 AAOs, 80 SAS Accountants, 13 Personal Assistants/Stenographers, 24 Selection Grade Clerks, 234 UDCs, 34 LDCs and 145 Class IV. Central test audit of the C.D.A. Office at Poona and of C.D.A. (Other Ranks), Mysore was entrusted to the Sr. DDA, Poona who was also the co-ordinating officer for the audit of the Individual Running Ledger Accounts of Other Ranks of the Army, which were conducted by the respective officers within whose audit area the PAOs maintaining the Individual Running Ledger Accounts were located and the Sr. DDA, Poona pursued the Local Test Audit Reports with the CDA (Other Ranks). The DDA, DS, Western Command, Meerut was entrusted with the central test audit of the accounts of the Western Command including Assistant CDA, Pay Section, New Delhi and local test audit of the Army List in the office of the CGDA after checking the Priced Vocabulary Rates of Ordnance, A.S.C., M.E.S., Medical and Air Force Stores in the Offices of Dy. FA concerned and the sale and issue of rates of dairy produce in the Quarter Master General's Branch (Remount, Veterinary and Farms Directorate). Apart from central test audit of the CDA (Factories), Calcutta, the Sr. DDA, Calcutta was given local test audit of accounts of all Ordnance and Clothing Factories in India and he had two sub-offices at Kanpur and Kirkee both under the charge of an AAO. The DDA, DS, Calcutta was entrusted exclusively with the test audit of the Ordnance Factories. He carried out centrally the test audit of the accounts kept in the Office of the CDA(F), Calcutta and locally, the test audit of the accounts kept in all Ordnance and Ordnance Equipment Factories and AAOs, DS (F), Kanpur and Kirkee, later Jabalpur and Avadi carried out the local audit of the accounts of the factories situated within their respective regions under the guidance of the DDA at Calcutta. The Command Officer, Calcutta, coordinated the results of test audit. The work relating to railway warrants and credit notes other than railway warrants issued to Service Officers was coordinated by his office. A DDA each at Kanpur and Kirkee was entrusted with the local audit of the factories situated within the respective regions. The Assistant Audit Officers, Kanpur and Kirkee were supervised by the Deputy Director of Audit, Defence Services, Calcutta.

DDA, DS, Eastern Command, Meerut became exclusively responsible for the central test audit of the accounts of the CDA, EC, and local test audit of the Army units/formations and Pay and Accounts Offices in the U.P. area of the Eastern Command. The DDA, DS, Patna was entrusted with the central test audit of the accounts of the Joint Controller of Defence Accounts and the local test audit of the accounts of the Army units and formations and PAOs in Bihar, Orissa, West Bengal and Assam *i.e.,* Eastern Command excluding U.P. Area. Two AAOs with 2 test audit parties under him were stationed at Calcutta.

AIR FORCE

The Indian Air Force was composed of (i) Squadrons and Flights of various kinds such as Fighter, Bomber, Transport, Helicopter, Reconnaisance, Survey, A.O.P. etc., (ii) Training establishments such as Air Force Flying College, Flying Instructors' School, Paratroopers' Training School, Transport Training Wing, Fighter Training Wing, Air

Force Administrative College, Air Force Technical College, Ground Training School, etc., (iii) Equipment and Base Repair Depots and (iv) Staff formations *viz.* Air Headquarters, Western, Eastern, Central, Training and Maintenance Commands, Stations/and Wings. The CDA, Air Force, Dehradun was organised into different sections and type of audit checks to be conducted in each and the special points to be looked into during audit were laid down from time to time. Basically, audit of accounting, imprest, stores, pay and allowances, individual running ledger accounts etc. were to be looked into specifically, as instructed. The CDA (AF) had 12 sections at head quarters and branch offices under DCDA (Air Force) including Finance and Audit Section (Hindustan Aeronautics Limited, Bangalore) who was responsible for exercising financial and cost checks on behalf of the Ministry of Finance (Defence); carried out audit checks devolving on the DAD and was responsible for payment of bills preferred by HAL, Bharat Electronics Limited and Indian Telephone Industries Limited, Bangalore and for services rendered and supplies made to the IAF. He also carried out financial checks and scrutiny of costs from Dy. FA (AF) for fixing prices for adoption in the HAL contracts. He coordinated the work of Accounts Officers located in the units of HAL at Kanpur, Koraput, Ojhar and Hyderabad. The DCDA, New Delhi was responsible for the audit/classification under proper heads of account of receipts and expenditure in respect of pay and allowances of Air Force Officers, Airmen, NCs(E), Civilians, etc. DDA, DS, Dehradun carried out the central test audit of the accounts of the CDA, Air Force, and local audit of Air Force units/formations and also Army units/formations and PAOs in the J&K Area. He had a sub-office at Bangalore under the charge of an AAO, who conducted local test audit of the Air Force Units and formations located in Southern Zone.

The general instructions issued for local test audit of units and formations were required to be followed during local test audit of the units and formations under Air Force as well. The primary function of local audit was to apply test audit to such accounts and vouchers as were not audited in the central office or could not be completely audited except in local audit and to see that the initial documents from which the bills and accounts rendered by the local officers were compiled or on which they were based, were properly maintained. The main processes of audit required to be conducted by the local test audit staff and the extent, quantum and technique were laid down. Peculiar features of test audit of certain classes of transactions, different kinds of formations etc. were spelt out. Apart from general examination of the internal organisation and the accounting system of units, an examination of the efficiency and effectiveness of the internal audit of the CDA, Air Force was conducted. Basically audit of cash accounts, receipt and issue vouchers of stores including linking of issue of receipts, ledgers and ledger cards, surplus, obsolete, non-serviceable stores, stock verification, loss statements, railway and road warrants, credit notes and contracts, etc. were carried out in accordance with the instructions issued by the DA, DS. A performance-cum-efficiency audit was also required to be conducted as directed by the head of office.

NAVY

The command of the Indian Navy was vested in the Chief of Naval Staff, Indian Navy with headquarters at New Delhi, which was exercised mainly through three Command Officers *i.e.* Flag Officers Commanding-in-Chief, Western Naval Command, Eastern Naval Command and Southern Naval Command, whose jurisdictions were specifically laid down and whose authority extended over all Naval establishments in their respective charges and over such ships and crafts as were placed under their direct command. The Indian Navy consisted of afloat establishments, such as, Aircraft carriers, Cruisers, Sub-marines, Destroyers, Frigates, Tankers, Mine sweepers etc. and shore establishments such as training, dockyard, storage and other miscellaneous administrative establishments. The CDA (Navy) at Bombay was responsible for the payment and audit of all expenditure in respect of the Indian Navy; provided funds to ships and establishments and audited the pay, store and cash accounts of the Navy; prepared the wages bills of all Naval Dockyards and acted as Commanding-in-Chief, Western Naval Command, Bombay and Flag Officer Commanding, Southern Naval Area, Cochin. The Sub-Offices at Visakhapatnam and Cochin acted as local Financial Advisers to the Flag Officer Commanding-in-Chief, Eastern Naval Command, Visakhapatnam.

The CDA's organisation was divided into various sections on a functional basis and the system, procedure, and special features were laid down in the CDA's Manual. For the test audit, the system, procedures and the quantum etc. of audit checks to be conducted were laid down by the DA, DS, which covered accounts, imprest, stores, bills, wages, costing, pricing, over-head charges, individual running ledger accounts, etc. For accounting purposes and local audit, the Indian Navy Ships were grouped as self-accounting ships *i.e.* large ships (Air Craft Carriers, Cruisers, Destroyers, Frigates, Survey Vessels, Tankers etc.) which had a Supply Officer who maintained the cash and store accounts and non-self accounting ships *i.e.* smaller ships (Sub-Marines, Minesweepers, Seaway Patrol Crafts, Seaway Defence Boats etc.) in which the cash and stores accounts were maintained centrally by the Base Supply Officer of the base to which the ships were attached. The self accounting ships maintained their own accounts regarding permanent stores, consumable stores and other stores. The accounts of the shore formations and other non-self accounting ships attached to Navy were attached to the Base Supply Officer of the Naval Base. Administrative training and other miscellaneous formations also had stores which were accounted for in the ledgers in the usual way. The local test audit procedure for auditing different categories of units, formations etc. were laid down as also the extent and quantum to be followed by the local test audit parties. These broadly covered permanent stores accounts, consumable stores accounts, victualling accounts, clothing accounts, Stock Verification, contracts etc.

The Controller of Defence Accounts (Navy) had 14 sections at headquarters and 2 sub-offices at Vishakhapatnam and Cochin. JCDA, CSD dealt with matters relating to canteen stores department. The DDA, DS, Bombay was entrusted with the audit of Central test audit of accounts of the CDA (Navy), Bombay and local test audit of Naval Headquarters, Units and formations and audit of Navy List in the office of the Controller General of Defence Accounts and also the audit of the annual proforma accounts of Military Lands Scheme, Bombay on behalf of the Accountant General, Central Revenues, New Delhi. Check of the rate list of Naval Stores in the office of the Dy. Assistant Financial Adviser, Bombay and audit of the accounts of the C.S.D.(India), Bombay were also his functions. The local test audit parties consisted of one SAS Accountant and two Auditors - but in respect of certain important units, there were two SAS personnel depending on the quantum of audit. The composition of central test audit sections was one or two SAS personnel and required number of auditors depending upon the work load decided with reference to the tour programme framed in advance. The supervision of the local test audit conducted by the field parties was carried out by the assistant audit officers and in some cases by the Joint Directors themselves before the conclusion of each audit. The Central audit was supervised by the assistant audit officer concurrently as the audit proceeded. The duties of Command Officers and AAOs remained more or less unchanged except that a system of a demiofficial letter from each Command Officer to the Director of Audit by 4th of each month giving details of important irregularities noticed by statutory audit, which were considered potential for inclusion in the AR or for inclusion in the Director's monthly letter to the CAG, was introduced in July 1957.

RATIONALISATION

In 1965-66, the Defence audit procedures were reviewed and rationalised in respect of transactions pertaining to Army, Air Force and Navy units. Audit of (a) contracts, (b) files dealing with the acquisition and requisition of lands and properties, (c) payment of interim and terminal compensation, (d) stores, and transactions of Central ordnance depots, Central Vehicle depots, (e) Central E.M.E. Workshop, and (f) military farms and remount depots, was intensified by increasing the periodicity, duration, quantum of audit and making the inspection party S.A.S. accountant oriented, with increased gazetted supervision. Reduction was effected in audit of revenue accounts, pay and allowances of officers and other ranks, pension entitlements and pension payments, by reducing the periodicity, duration and quantum of audit. Audit of factories, however, continued as before. Procedure of audit of contracts entered into by the Ministry of Defence and contracts of the value exceeding Rs. 50 lakhs was streamlined. Under the revised procedure, the headquarters office of DADS not only scrutinised them but also indicated for the guidance of command audit offices specific points to be looked into in the audit of implementation of the contracts, and the peculiar or unusual features in the contracts requiring special investigation. The command audit offices reported to the headquarters office periodically, the progress in the implementation of contracts and the points noticed in their audit. Subject-wise files were opened in the headquarters office for each such contract, including supplementary contracts relating to the same item, so as to have a complete history of the contract in one file. Contracts running for a long period were reviewed by the Director of Audit, Defence Services, New Delhi periodically with reference to the files of the Ministry, if necessary. Provisioning audit was intensified in view of its importance.

By 1970, the number of Sr. Dy. Directors, in the Department increased by four, one at Headquarters, and three in the field offices. The strength of the Department rose to 719 - 16 IAAS Officers, 32 AAOs, 120 SAS Accountants, 63 SG UDCS, 252 UDCs, 47 LDCs, 15 Stenos/PAs and 174 Class IV. The test audit of the accounts in the Office of the CDA, Air Force was conducted in accordance with the systems and procedures designed to suit the organisation and the techniques, processes and quantum prescribed from time to time. The Command Officer personally supervised the local test audit of the important Army/Navy/Air Force depots at least once and met the Defence Authorities at Command/Air/sub-headquarters regularly and periodically to discuss important audit objections and kept the Head quarter's Office informed. Quarterly and annual statements received from the Controllers of Defence Accounts were scrutinised with reference to sanctions and statement of cases attached to them, wherever prepared, with a view to finding out whether any of these cases merited attention in the AR (DS) and copies of these statements were also sent to the Director along with their remarks. They ensured that losses, the monetary value of which was not assessable, were not sanctioned by the authorities lower than the Government of India. Based on the recommendations of the Mukherji Committee in 1972, certain additional rationalisation measures were implemented. These included, *inter alia*, revision of the quantum of audit of indents based on the monetary ceiling of the indents, watching progress of supply and utilisation in respect of costly items, watching the progress in implementation of contracts valued over Rs. 25 lakhs, intensification of the special review of ordnance factories by forming separate parties with one AO and two SAS accountants, issue of guidelines for reviews, rationalisation of the method of selection of final bills pertaining to works for scrutiny during local audit, increasing the duration of audit of Garrison Engineer's office and changing the composition of the party into 2 SAS accountants and 1 UDC, increasing the duration of audit of the accounts of Air Force wings for auditing the accounts of aircraft and their performance more intensively, review of the working of one selected base, repair depot every year, increase in the duration of audit of naval workshops, intensifying the audit of the accounts of each research and development establishment and increase in the duration of audit of military dairy farms holding live stock.

THE CHIEF AUDITOR

The role of the factories changed substantially in the two decades after independence, when a policy and programme for accelerated growth of defence industries was launched, whose main thrust was to ensure defence preparedness to meet the external threats and also to promote indigenous research and development with a view to become self-reliant and to modernise defence production. In March 1971, there were 26 ordnance factories and 5 ordnance equipment factories, under the administrative control of Director General of Ordnance Factories and one under the Ministry of Defence (Department of Defence Production), with an aggregate investment of over Rs. 490.13 crores. A separate office of the Chief Auditor, Ordnance Factories at Calcutta was created in June 1973 for audit of the Ordnance Factories and Shri T.M. George was the first Chief Auditor. There were four Regional Offices - Eastern Region under the charge of a Deputy Chief Auditor Culcutta for auditing 9 factories/formations, Northern Region under the charge of a Senior Deputy Chief Auditor at Kanpur for auditing 13 factories/ formations, Central Region under the charge of a Senior Deputy Chief Auditor at

Jabalpur for auditing 7 factories/formations with sub-offices at Ambajhari and Kirkee for auditing 7 units each, Southern Region under a Deputy Chief Auditor at Avadi for auditing 6 factories// formations and a factory audit liaison cell at New Delhi under an AO for audit of sanctions issued by the Ministry of Defence (Department of Defence Production) directly under CAOF. The staff was borne on the common cadre of the Defence Audit Department controlled by the DADS. The total strength of the Factory Audit Wing was 188 - 71 in the office of the CA, Calcutta (3 AOs, 10 SOs, 36 Auditors, 3 Stenos, 5 Clerks and 14 Class IV with 5 parties - 1 Central Audit and 4 local audit), 37 in the office of the Senior DCA at Kanpur (2 AOs, 6 SOs, 17 Auditors, 1 Steno, 2 Clerks, 9 Class IV with 5 LAPs), 27 in the office of the DCA, Jabalpur (2 AOs, 4 SOs, 12 Auditors, 1 Steno, 2 Clerks, 6 Class IV with 3 LAPs), 17 in the sub office at Kirkee (1 AO, 3 SOs, 8 Auditors, 1 Clerk, 4 Class IV with 3 LAPs), 15 at Avadi (1 AO, 2SOs, 8 Auditors, 1 Clerk, 3 Class IV with 3 LAPs), 16 in the Office at Ambajhari (1 AO, 3 SOs, 8 Auditors, 1 Clerk, 3 Class IV with 3 local audit parties) and 5 at New Delhi Liaison Cell (1 AO, 1 SO, 1 Auditor, 1 Clerk and 1 Class IV). The responsibility for audit of Government sanctions relating to Ordnance depots and Ordnance factories, including losses sanctioned by the Government of India with reference to Ministry's files, was entrusted to the CA. The Headquarter office of the CA was organised into 6 sections - Administration and establishment, Reports and PAC Technical-cum-Coordination Project, Local audit and Central Test Audit.

While the overall responsibility of DADS as Audit officer of all transactions relating to Defence Services, including those of Ordnance factories continued even after the reorganisation, the CA was necessarily concerned with the limited part of defence transactions; but the existence of linkages in many cases between the Ordnance depots and Ordnance factories required close coordination with the former. He was responsible for preparing and finalising the draft paras relating to Ordnance Factories and sending them to the Ministry of Defence Production/ CAG's Office. Both were required to discuss jointly all draft paras relating to Ordnance Factories with the Ministry of Defence, Department of Defence Production and the Department of Defence Supplies, as the case may be. Eight officers held the post of CA until 1989, the minimum tenure being 8 moths 19 days and the maximum being 5 years 1 month and 24 days of Shri A.P. Ghosh.

Material for the AR was furnished, as and when expedient to the CA (Ordnance Factories), Calcutta by the Regional Offices in the form of Factual Statement of cases/draft paras. Concurrence or otherwise of the Ordnance Factory Board, Calcutta of the facts mentioned in the paras was obtained and communicated promptly. The important results of audit conducted on the accounts of the Ordnance Factories and Ordnance Equipment Factories were included in the chapter on 'Ordnance Factories' on AR (DS). The cases relating to the Ordnance and Ordnance Equipment Factories were forwarded to the Director of Audit, Defence Services by the CA (Ordnance Factories) after their approval by the CAG for inclusion in the Report. On receipt of the Factual Statement of cases/draft paras from Regional Offices, these were examined by the Report Section and the Project Section of his office to see if a *prima facie* case existed for comments and, if so, the paras after approval of the CA were issued to the Ministry of Defence (Department of Defence Production) for furnishing replies within 6 weeks. Simultaneously, copies were enclosed to the Ministry of Finance, Defence, Controller General of Defence Accounts, New Delhi and the Chairman, Ordnance Factories Board. Paras were sent in batches to the CAG's office for vetting and offering preliminary comments and after receipt of replies and completion of discussion with the Ministries concerned, they were revised by CA, Ordnance Factories after taking into account HQ's Office comments offered by the CAG and returned to the CAG for approval and for inclusion in the Report. The follow-up action on the ARs placed before Parliament was carried out by the CA, OF.

ORGANISATION AND MANAGEMENT OF FACTORIES

Based on the recommendations of the Rajyadhyaksha Committee* constituted in 1975, Government set up an Ordnance Factories Board (OFB) from 2nd April, 1979 with DGOF as Chairman and 7 full time Members in the rank of Additional DGOF in the headquarters office, three Members incharge of three groups of factories, one Member each in charge of Personnel, Finance, Planning, Materials management, Technical Development and Services. The Ordnance Factories were re-organised and the Finance and Accounts were integrated with the Management of the factories. The Ordnance Equipment Factories Group (OEFG), except the Ordnance Factory at Chandigarh was separated from OFB and made into independent division directly under the Ministry of Defence. The offices of the Regional Directors of the OFs were disbanded and the OFs were grouped into three distinct divisions, namely, Ammunition and Explosives, Weapons, Vehicles and

* Shri V. C. Rajadhyaksha (Chairman), Dr. A. Ramachandran, Dr. V. Krishnamoorthy, S/ Shri S. Banerji, J.P. Kacker, G.C. Katoch and Dr. S. Bhattacharya (Members) & Shri R.K. Takkar (Secretary to the Committee).

Equipments and Materials and Components. Wider financial powers were delegated to the OFB and the General Managers of different Ordnance factories. The Chairman of OFB presided over the meetings of the Board and three members formed the quorum, but where financial issues were involved, one of the members to form the quorum was the Member (Finance). Where there was a tie, the Chairman was empowered to give a casting vote. Member (Finance) could request the Chairman to place any majority decision with which he did not agree before the Financial Adviser, Defence Services. The finance, accounts and internal audit functions were fully integrated with the management of the factory onwards to the level of OFB. The CDA (F) was redesignated as the Controller of Accounts (Factories). A Chief Internal Auditor (Factories) was inducted into the organisation. Both the COA (F) and the CIA (F) functioned under the Member (Finance). The functions of the erstwhile Dy. Financial Adviser were carried out by the Controller of Finance (Factories) under Member (Finance). The heads of Accounts Division of all OFs reported both to the General Managers and the Controller of Accounts (Factories). The CGDA obtained the Annual Audit Certificate and connected statements pertaining to the work handled by the COA (F) through the Member (Finance), OFB, Calcutta who also acted as a Sub-Audit Officer and submitted them to the Ministry of Finance (Defence). The General Managers of OFS were required to exercise the powers delegated to them in consultation with the local Finance Accounts Officers. Responsibility for cadre management of all Defence Accounts Department personnel functioning under the COA (F) and CIA (F) rested with the CGDA. In respect of work relating to Railway Section, DGI and R&D establishments, COA (F) functioned directly under the CGDA. For drawal and accounting of Defence cheques, he functiond as other CDA under the CGDA. In 1979, the COA (F) had 12 sections in headquarters office and 8 Joint Controllers at Kanpur, Jabalpur, Kirkee, Ishapore, Ambajhari, Avadi, Muradnagar and Itarsi Project.

CHANGES IN ACCOUNTING AND AUDIT

The system of cost accounts prevailing in the Factories introduced as far back as 1919 had more or less continued, in spite of several reviews carried out between 1952 and 1973, but in June - August 1973 a Committee (known as ABHYANKAR Committee*) specifically appointed by Government for

* Shri G.K. Abhyankar (Chairman), S/Shri J. Sen Gupta, N.K. Bose, R. Rajagopalan, P. Rajagopalan, (part-time Members) & D. Sarkar (Member Secy) and C.S. Gouri Shankar M.K. Ganesan & P.C. Ghosh (whole-time members), with D. Sarkar as Convenor.

review of the cost and management accounting systems in OFs recommended in August 1974 major changes for simplification of and improvements in the existing systems, measurement of labour productivity, simplification of material estimates, control over rejections in production, revision of the method of depreciation of plant and machinery, accounting and charging of preliminary expenses, evaluation of work-in-progress, segregation of war insurance charges, modification of standard costing as an instrument of cost control etc. These were accepted by Government and an empowered Committee was appointed by Government in November 1976 consisting of the representatives of the Ministry, Finance, Accounts and DGOF and the recommendations were implemented from 1st April, 1978 under the orders of the Ministry/DGOF/Controller of Defence Accounts (Factories). Consequently the scope, coverage and extent of audit of the cost accounts in the factories was suitably modified. The mechanisation of accounts carried out with the help of Hollerith machines was modified and sophisticated, after the introduction of the EDP system, which brought out certain changes in financial accounting systems and procedures. These changes modified the system, procedure and techniques of central and local test audit processes and a revised manual (Third Edition) incorporating the latest techniques, systems and procedures in audit was issued in 1981.

In June 1976, a separate regional office under Deputy Chief Auditor was formed at Calcutta for auditing 9 factories/formations with a total strength of 37 (3 AOs, 7 SOs, 17 Auditors, 1 Steno, 2 Clerks/Typists and 7 Class IV with 1 central audit and 5 local audit parties). The designation of CA OF was modified to Director of Audit, Ordnance Factories from April 1979. The post of Joint Director at Kanpur was temporarily upgraded to Additional Director of Audit during the period from April 1979 to October 1981 to accommodate Shri S.S. Shrivastava.

In March 1981, thirty two factories were engaged in production of arms, ammunitions and related components, road transport vehicles, clothing, footwear, tent equipments etc. for all the three arms of the Defence Services, and the total fixed assets were of the value of Rs. 399 crores and accounted for an annual production of Rs. 674.27 crores employing as many as 1,64,881 persons, excluding officers. The average value of fixed capital assets rose to Rs. 546.07 crores in March 1986 employing 1.85 lakh persons and the net cost of production was Rs. 10.07 crores, with a capital outlay ratio 1/1.84. The Ordnance Factories met 54.54 per cent of the requirements of stores (armaments, ordnance, clothing, mechanical, transport) of the Army, 22.19 per cent of Navy, Air Force and others. The total strength of the DA (OF) in March 1984 was 236 (17 AOs, 39 SOs, 100 Auditors, 8 Sr. PAs/Stenos, 20 Clerks/Typists and 52 Class IV). The sub-offices at Kirkee and Avadi were upgraded in August 1984 and each placed under the charge of a DDA, OF. By March 1988, there were 5 regional offices, one at Calcutta under the charge of a Joint Director of Audit and one each at Kanpur, Jabalpur, Kirkee and Avadi each under the charge of a Deputy Director,one sub office of Deputy Director, Jabalpur under the charge of an A.O. at Ambajhari and Liaison Cell at New Delhi with a total strength of 293. The lay out of the organisation was as under :—

- D.A.(O.F) Calcutta
  - HQ 61 officers and staff
  - Jt. DA(OF) Calcutta
    - 48 officers and staff
  - Dy. DA(OF) Jabalpur
    - Main office 56 Officers and staff
    - A.O. Ambajhari sub-office 21 officers and staff
  - Dy. DA(OF) Kanpur
    - 55 officers and staff
  - Dy. DA(OF) Avadi
    - 24 officers and staff
  - Dy. DA(OF) Kirkee
    - 24 officers and staff
  - A.O. (Fy. Cell) New Delhi
    - 4 officers and staff

About 166 units/formations were subjected to local audit during 1985-86 to 1987-88. The expenditure incurred by the DA(OF) in 1987-88 was Rs. 70.73 lakhs.

CHANGES IN DADS

After creation of the office of the C.A (OF), the organisation of DADS comprised of 2 Joint Directors and 8 branch officers - 1 Assistant Director of Audit and 7 Audit Officers at headquarters and 6 Joint Directors and seven branch officers in commands. The scope of headquarters work in so far as it related to the audit jurisdiction of DADS remained unchanged. The work in the heaquarter's office was organised into 14 sections dealing with specific functions, namely, Administration, Budget, Establishment, Hindi implementation, Army audit , MES audit, Air Force audit, Navy audit, Border Roads, pay and pensions audit, Appropriation audit, Report and PAC, Coordination and Provisioning audit I and II. A major change in the headquarters office was the creation of a new section in 1980 viz. MES Audit section, to scrutinise Government sanctions, works prog-ramme, revenue and engineer stores relating to M.E.S. works, and various statements relating to MES expenditure (Annual Review of MES Expen-diture) to be included as appendices to the Appropriation Accounts, Defence Services, losses pertaining to works sanctioned by Government, Performance-cum-Efficiency audit reviews on selected works/projects received from Command Officers, all cases relating to hiring/acquisition of land for defence purposes, Army Instructions and Army Orders relating to MES and amendments thereto, to prepare draft paragraphs as a result of examination of aforesaid papers/sanctions, contracts, agreements etc. and to look into important cases pertaining to the above and related items brought out in monthly D.O. letters of the Command Officers with refe-rence to the Ministry's files. Also, a Coordination section for training, internal inspection and revision of Departmental Manuals was formed.

Consequent on setting up of Technical Sub-Committees/Central Technical Committee by Government for indigenous development of items of stores hitherto imported and for locating alternate sources of supply for items for which capacity had not been fully established in OFs, supply orders placed by the users, based on recommendations of the Technical Sub-Committee available with the Directorate General of Inspection and contracts concluded by the Department of Defence Supplies in the Ministry of Defence were also audited, according to the prescribed quantum, by the Provisioning Audit section with reference to orders issued from time to time. Besides the normal audit checks applied in the audit of contracts, it was also checked as to whether the firm requirements had been indicated by users, and whether reasonableness of the rates vis-a-vis imported cost or cost of production in OFs was taken into account by the Technical Sub-Committee/Central Technical Committee. The Command Officers guided the performance-cum-efficiency audits of schemes or projects and reviews of schemes or programmes selected for inclusion in the ARs. About 2856 units/ formations were covered in local audit during the three years from 1985-86 to 1987-88. The strength of the Defence Audit Organisation was 836 - 16 IAAS Officers, 44 AOs, 145 SAS Accountants, 72 SGUDCs, 312 UDCs, 54 LDCs, 19 PAs/Stenos and 174 Class IV.

ROLE OF DEFENCE ACCOUNTS DEPARTMENT

The Defence Accounts Department continued to be responsible for the payments and accounting of the expenditure of the Ministry of Defence and also looked after the accounting functions for the Border Road Organisation of the Ministry of Surface Transport and the Coast Guard Organisation of the Department of Revenue, Ministry of Finance. The Internal Audit functions were performed by the Department and its officers acted as Financial Advisers to their counter parts in the Defence Services. The DAD in its financial role, apart from interacting with the Ministry of Finance in the various fields of activities also interacted with different agencies functioning in the Ministry of Finance. Armed Forces consisted of Army, Navy, Air Force, other major inter-services agencies, Department of Defence Production, Department of Defence Supplies, OFS Board, Defence Research and Development Organisation, Canteen Stores Department, Defence Lands and Cantonments, Territorial Army, N.C.C. etc. It also dealt with Border Roads Organisation and the Border Roads Development Board under the Ministry of Surface Transport and the Coast Guard organisation under the Ministry of Finance. It maintained pay accounts of about 37,000 Army Officers and about 1 million soldiers. Audit and payment of the pay and allowances of over 6 lakhs civilians of Defence Services, Audit of pay and provident fund accounts of 2 lakhs pay accounts maintained by the Navy and Air Force and sanction of pension for about 1 lakh Defence personnel, both the Armed Forces personnel and the civilians every year, payment of pension to about 2.7 lakhs pensioners through the Defence Pension Disbursing Officers (DPDOs) and audit of payment of pensions of about 15 lakhs Defence pensioners were some of its functions. About 15.6 lakhs provident fund accounts of all Army Officers, soldiers, civilians, OFs and Border Roads personnel were maintained by its various Command offices. Scrutiny of contracts and payment of bills pertaining to stores purchases in respect of Army Service Corps, Army Ordnance Corps, Military Engineering Services and local audit of cash and store accounts and rendering financial advice to the GOC-in-C of Command HQrs and lower formations and corresponding Navy and Air Force formations and other inter-Service organisation such as MES, OFs etc. were the other functions. It also compiled accounts of expenditure of Defence Services and presented to the Government. The Department was fully integrated functionally and administratively together with Finance (Defence) with the Ministry of Finance from 1st August, 1983. While the Department continued to be under the adminis-trative control of the FA DS, MOD, the CGDA functioned as the Head of the Department. There were 22 Controllers of Defence Accounts working under the Controller General of Defence Accounts. The organisation of the Defence Accounts Department corresponded broadly to the three services as shown in Figure 18.1.

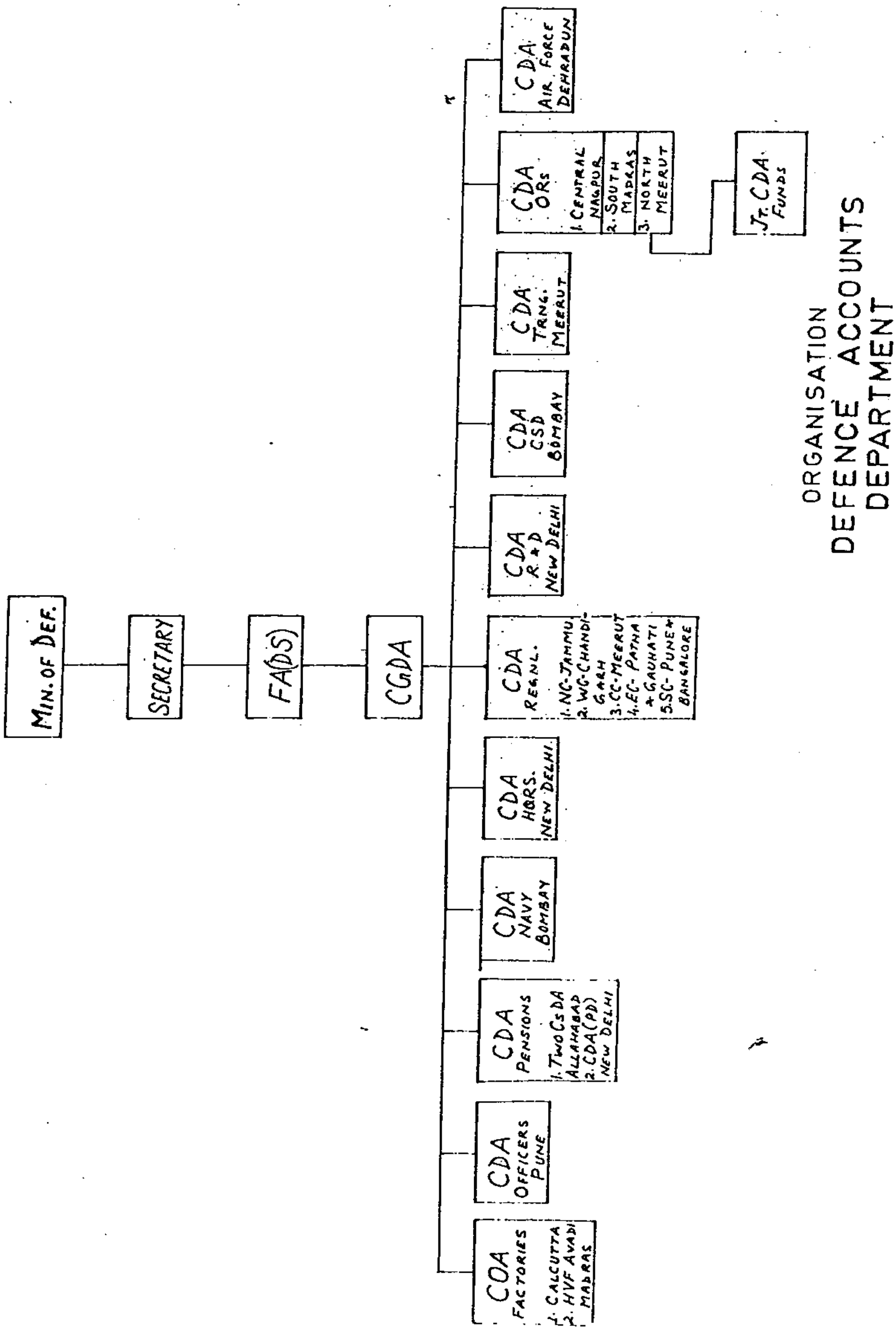


Fig. 18.1: Organisation:Defence Accounts Department

The CGDA dealt with Army HQrs, Naval HQrs, and Air HQrs, 7 Regional Controllers with 5 Army Commands and 7 Functional Controllers, 2 Controllers for 7 Air Force Commands and 1 Controller for 3 Naval Commands, 2 Controllers for Ordnance factories, 1 Controller each for R&D, Canteen Stores Department, CDA (HQ) and for inter-Services and 1 Controller for training. In 1984, 10 lakh soldiers' pay accounts, 15 lakh pensioners, 5 Army Commands, 7 Air Force Commands and 3 Naval Commands formed the functional jurisduction of the Department. The Budget of the Department was Rs. 50 crores in 1984 against the Defence Budget of Rs. 7,000 crores. The organisation of the Defence Accounts Department comprised of 350 Group A Officers *i.e.* of IDAS, 1061 Group B Officers *i.e.* Accounts Officers, 3525 SOs (Accounts) *i.e.* SAS passed Supervisors, 25,581 Auditors/Clerks, 935 others and 2748 Group 'D' and in all 34,200 employees in 1988.

DIRECTOR OF AUDIT (AIR FORCE & NAVY)

In 1985-86 the outlay on 'Navy and Air Force' was around Rs. 2862 crores, which was around 35.82% of the outlay on Defence Services and three Controllers were looking after the financial and accounting matters in the field. An office of the Director of Audit (Air Force and Navy) was created out of the office of DADS with effect from 3rd February, 1986 with headquarters at New Delhi for auditing the Air Force, Navy, and Coast Guard organisation of the Defence and Shri C. V. Srinivasan was appointed as first Director, who was succeeded by Shri Baldev Rai in March 1987. The DA was assisted by a Joint Director and Dy. Director at Head quarters, a Joint Director at Dehradun for auditing Air Force units and formations, with a sub-office at Bangalore under an Assistant Director and a Joint Director at Bombay for auditing the Naval units and formations, with a sub-office at Vizag headed by an Audit Officer. During the three years from 1985-86 to 1987-88, 4893 units were covered in local audit following the prescribed periodicity. The strength of the new organisation was 218 - 5 IAAS Officers, 17 Audit Officers, 35 Asstt. Audit Officers, 13 Section-Officers, 79 Senior Auditors/Auditors, 8 Stenos/Sr. PAs, 19 Clerks/Typists and 42 Group 'D'. Responsibility for examination of papers relating to the issue of sanctions for various projects/ expenditure relating to the Air Force, Navy and Coast Guard organisation and examination of the Ministry's files relating thereto, pursuance and finalisation of objections raised during test audit of Air Force, Navy and Coast Guard organisation by him and his Regional Officers, preparation of draft paras and reviews on various topics relating to the Air Force, Navy and Coast Guard Organisation and processing them for inclusion in the Report of the CAG of India, follow-up action on cases included in the AR, assisting the PAC during discussions and finalisation of PAC's recommendations on them and scrutiny of Codes, Manuals, Regulations relating to Air Force, Navy and Coast Guard organisation rested with the DA. The inspections were organised to carry out the scrutiny of sanctions accorded by the Government of India, of contracts and papers relating to the contracts concluded by the Ministry of Defence with foreign countries or procurement of Air Force and Naval equipments, of sanctions relating to projects for Air Force and Navy undertaken by the Research and Development organisation, test audit of demands of stores and equipments placed by various branches of Naval Headquarters and Air Headquarters, scrutiny of losses pertaining to Air Force and Navy sanctioned by the Government and processing of draft paras on audit findings coming to notice during the performance of these functions. In sum, the duties entrusted to the former Air Force Audit section and the Navy Audit Section were performed in greater depth and wider coverage by the newly formed head quarters sections in the organisation. The strength of the office in March 1988 was 246 and its expenditure Rs. 69 lakhs.

The DADS continued to audit the receipts and expenditure of the Army, Research and Development Organisation, Canteen Stores Department and allied formations. Both the offices of DADS and DA (A&N) are housed in the hutments at Church Road as shown in figure 18.2. Although the Ministry of Defence, all the Services headquarters, the CGDA and other allied departments have moved on to new abodes during the last two decades, the Defence Audit Department has all along remained in humble, unpretentious and unassuming surroundings, for reasons best known to authorities belie the din and bustle generated by the Audit Reports finalised by them.

The sanctioned strength of Defence Audit Department in April 1985 was 1138 (16 IAAS Officers, 87 AOs, 180 AAOs, 48 SOs, 379 Sr. Auditors, 99 Auditors, 96 Clerks/Typists, 31 Senior PAs./Stenos, 30 Record Sorters and 172 Group 'D'). The organisation of the Defence Audit Department in March 1988 is given in figure 18.3.

The expenditure incurred by the department was Rs. 3.48 crores in 1987-88 and the total outlay on Defence Services during the year was Rs. 12386.53 crores and the incidence on Audit was just about 0.03%

AUDIT REPORTS (1947 - 1988)

The AR (1947) was prepared by DADS in accordance with para 13(1)(i) and (iii) of the Government of India (Audit and Accounts) Order, 1936 and Section 169 of the Government of India Act, 1935 and embodied the report of the Auditor of the United Kingdom affecting the Defence Services under Sub-Section 4 of Section 170 of the Government of

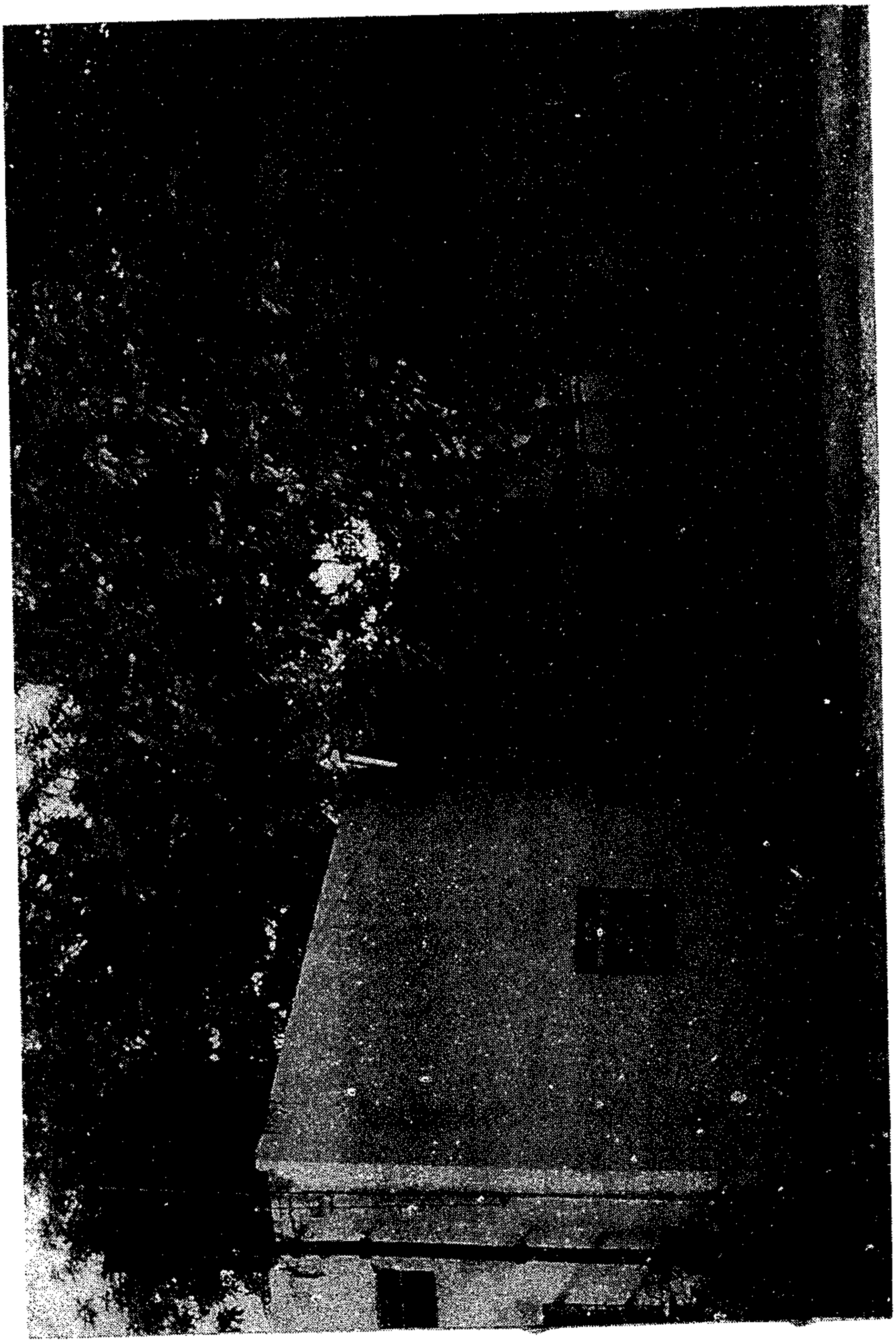


Fig. 18.2: Hutments housing the Offices of the Director of Audit, Defence Services and Director of Audit (Air Force and Navy)

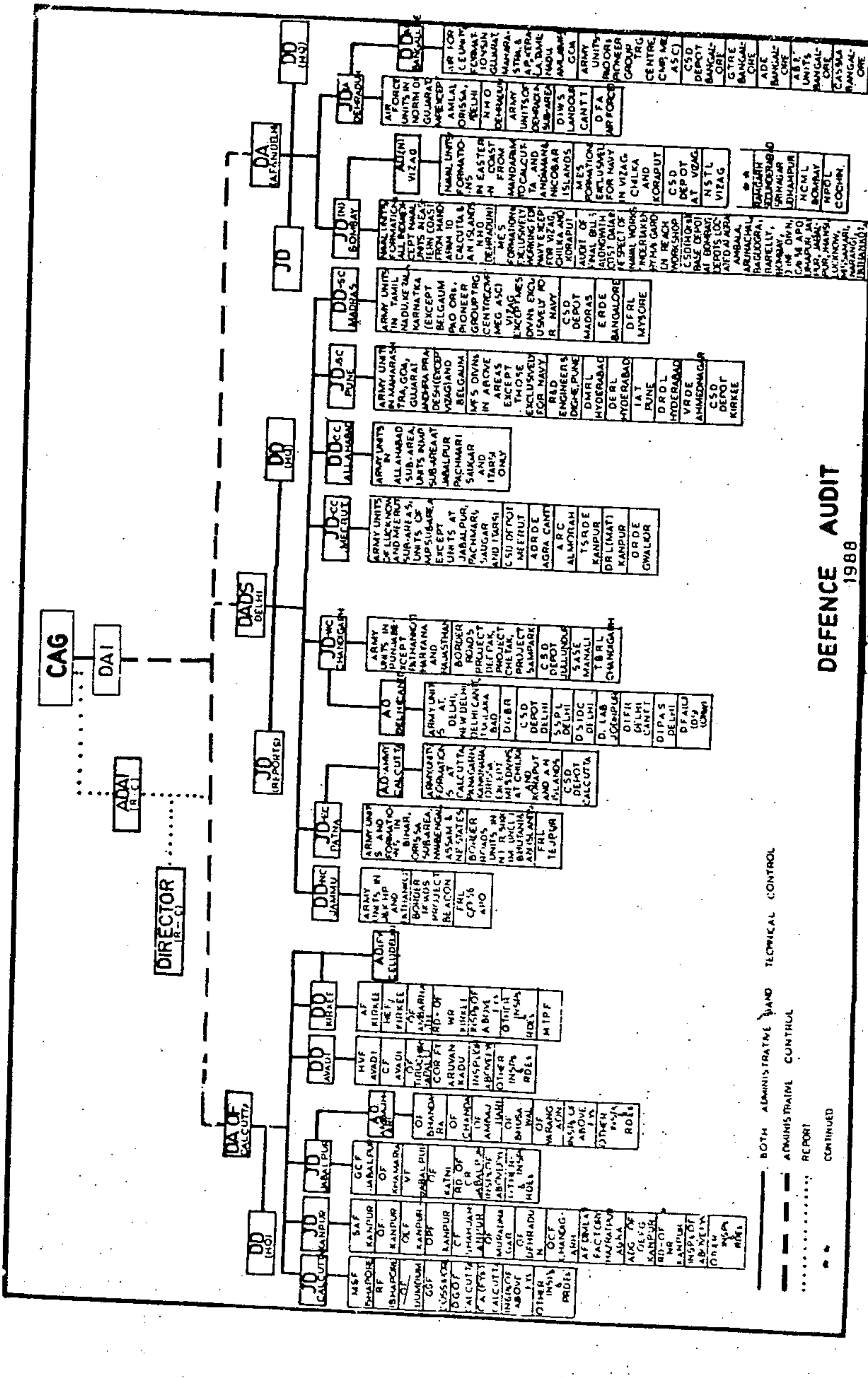


Fig. 18.3: Defence Audit 1988

India Act, 1935, which was countersigned by the Auditor General. The irregularities discovered by the Internal Check Authority namely, the Military Accounts Department, were also included in accordance with the recommendations of the Public Accounts Committee for 1930-31. Comments were confined mostly to audit points of outstanding interest or importance, the examination of which by the Audit Department and the administrative authorities had reached a sufficiently advanced stage to make their inclusion of practical use. Only agreed statement of facts and completed cases were included in the Reports and a convention to mention cases relating to previous years, which had become ripe for inclusion, since the writing of the last report, in the Report of the first convenient year had come into vogue. The Military Accounts Committee in their Report on the accounts of 1943-44 had desired that no more than a period of 6 weeks was to be allowed to the Departments to accept or modify the form of the paragraphs of the AR and where the Departments did not react within the prescribed time, the draft proposed was treated as final and included in ARs so as to avoid delay in reporting important findings to the PAC. The Prefatory remarks to the Reports indicated that cases of financial irregularity, apparently defective administration. etc. which were brought to notice in the Report represented only a small percentage of the total financial transactions of the year and the comments on such cases were not understood as conveying any general reflection on the administration of public expenditure.

The AR comprised of Part I - changes in the year under report and Part II (containing) General Review of the results of Audit-3 Sections *viz.* Section 1 Appropriation Accounts, Section 2 Preliminary Remarks and section 3 incorporating Audit paras grouped under chapter heading, Chapter I Works Expenditure, Chapter 2 Acquisition of stores, Chapter 3 Stores Accounting, Chapter 4 Pay and Allowances, Chapter 5 General and Chapter 6 Comments on Appendices to the Appropriation Accounts. The Commercial Appendix to the Appropriation Accounts of the Defence Services included the review of the Financial Adviser on certain commercial concerns and was also signed by the Secretary to the Government of India, Ministry of Defence and the AR thereon was signed by the DADS and countersigned by the Ar.Gl. Comments on CA to the AR, normally contained comments on losses, rejections, increase in cost etc. In the wake of partition of India and the additional work thrown upon accounts and audit offices in consequence thereof and the dislocation created by the movement of staff and records, and tne decision taken by the PAC that the Appropriation Accounts, Defence Services for the period from 1st April, 1947 to 14th August, 1947 need not be prepared and it would suffice both constitutionally and from a practical point of view, if a Memorandum including important financial irregularities, which ordinarily appeared in the AR, was compiled for consideration of the PAC. The AR 1947 covering accounts 1945-46 was finalised in January 1948 *i.e.* 21 months and 9 days after the close of the financial year. The Ar.GI. had assured the PAC to expedite finalisation of ARs. AR (DS) 1949 was prepared in four sections spread over 21 pages, which contained 11 paras on important financial irregularities relating to the accounts of the Defence Services for the period from 1st April, 1947 to 14th August, 1947. The paragraphs containing war-time irregularities were indicated by astericks in the AR for 1951. The Prefatory Remarks in the AR 1953 omitted the sentence that comments on financial irregularities etc. should not be understood as conveying any general reflection on the administration or public expenditure.

The AR, 1954 indicated that in future, the Report of a year would bring to notice the major irregularities relating to the immediately preceding financial year and that it was proposed to consolidate all audit observations in one report and make the Appropriation Accounts and the Commercial Appendix statistical documents. Irregularities in respect of which remedial measures including suitable disciplinary action, where necessary, had been taken by Government were normally excluded from the scope of the report to enable the Public Accounts Committee to concentrate on major questions of policy and planning to the extent they impinged on the utilisation of the appropriations and the more important irregularities. The average time taken to finalise Reports of 1947 to 1953 was 17 months and 24 days. AR 1951 was finalised 23 months and 24 days after the close of the financial year but AR 1952 was finalised within 10 months and 17 days after the close of the financial year. AR 1947 had 34 pages distributed over 6 chapters and contained 86 paragraphs. The pages and paras declined in 1949 Report which had 16 pages, 6 chapters and 35 paragraphs. 1953 Report again showed increase, having 64 paragraphs in 6 chapters spread over 42 pages. AR 1954 which was finalised within 8 months after the close of the financial year contained 17 pages, 6 chapters and 22 paragraphs. AR 1955 was finalised in 20 months and 22 days. Reduction in time lead came about in AR 1960 which was finalised in 11 months and 27 days. The average time lead during this period was 17 months and 21 days. Two new chapters one on stock verification (Chapter 5) and the other on outstanding audit objections (Chapter 6) were added. The number of pages in the ARs 1954 to 1960 varied from 17 to 38, chapters 6 to 8 and paras 22 to 57 in the ARs 1954 to 1960. The average number of paragraphs was 36 and pages 25. A separate para on OFs appeared from 1954 Report under the Chapter - Defence Factories and Installations - the first chapter contained 4 paras on 6 pages, which continued more or less in subsequent years. AR 1960 was signed by Shri P.K. Basu and countersigned by Shri A.K. Roy. During 1961 to 1966, the Reports were finalised in 12 months and 9 days (1962 Report) to 10 months and 13 days (1964 Report), the average time lead being around 11 months and 5 days, after the close of the finalicial year. 1962 Report contained 27 pages, 6 chapters and 32 paras. The average number of pages of Reports was 31 and paras 44 and chapters varied from 8 to 5. While 1967 Report was finalised in 14 months and 26 days after the close of the financial year, 1969 Report was finalised after 11 months and 17 days. The average time lead for Reports 1967 to 1970-71 was 12 months and 12 days. 1967 Report contained 70 pages and 8 chapters with 50 paras which was signed by Shri K.T. Mirchandani and countersinged by Shri S. Ranganathan. The average contents of the Report dropped down to 24 pages, 6 chapters and 21 paras during the period. Reports for 1970 and 1969-70 contained the lowest number of paras - 15.

The time lead for finalisation of Reports 1971-72 to 1976-77 was 11 months and 19 days but 1975-76 Report took 14 months and 15 days for finalisation. The average time-lead was 12 months and 15 days. A review on the execution of a naval project appeared for the first time in the AR 1974-75*. The number of pages/chapters varied from 28/5 (1971-72 Report) to 173/11 (1975-76 Report) and the paras increased from 19 to 53 (AR 1975-76) (including 3 reviews on setting up of repair/overhaul facilities for aircraft, setting up of a steam test house and construction of a dry dock). The average number of pages was 103 and the average number of paras 37. While 1977-78 Report was finalised after 13 months and 8 days, 1982-83 Report was finalised in 10 months and 14 days. The average time lead in finalisation of Reports was 11 months and 9 days. The number of pages/chapters of the Reports varied from 101/10 in 1978-79 Report to 169/9 in 1982-83$. The average number of pages was 139 and the average number of paras 44 including 8 reviews. All the Reports contained 1 to 2 reviews. During 1983-84 to 1987-88 the Reports were finalised within 12 months and 4 days to 12 months and 28 days after the close of the financial year. The number of pages varied from 61 in 10 chapters (1983-84 Report) to 114 in 9 chapters (1985-86 Report) AR on Army and OFs for 1987-88 (No. 2 of 1989) was finalised in April 1989 but was presented to Parliament in July 1989. A separate Report on Navy and Air Force (No. 3 of 1989*) signed by DA (Air Force and Navy) was finalised on 4th April, 1989. The number of paras was 38 in

* Signed by M.C. Sarin & countersigned by Shri A. Baksi.
$ Signed by Shri G.N. Pathak & countersigned by Shri Gian Prakash.
* Signed by Shri Beldev Rai & countersigned by Shri T.N. Chaturvedi.

1983-84, 50 in 1984-85, 69 in 1985-86, 78 in 1986-87, which contained the maximum number of paras and reviews in a single Report, which was signed by Shri M.M.B. Annavi. 1987-88 Report was issued in two volumes, volume I contained 84 paras including 6 reviews -27 paras on Army, 21 paras on OFs, 18 paras on Works, 10 on Budgetary Control, 4 on Ministry of Defence, 2 on Research and Development and 2 others. Volume II contained 50 paras including 10 reviews, 19 paras on Air Force , 23 on Navy and five on Research and Development. Thus, during the last 42 years, seven Reports were presented during February of the year following the financial year, eight Reports during March. As the latest Reports, more or less portray the quintessence of the growth and development of reporting on Defence Services realised during the last 40 years, an overview is given in succeeding paras.

AR 1987-88@

BUDGETARY CONTROL

Against a total voted grant of Rs. 13,293.62 crores to the Defence Services for 1987-88, the actual expenditure was Rs. 12,378.75 crores and the reduction in expenditure to the extent of Rs. 914.87 crores, despite excess over two grants, Rs. 2.05 crores in Army, Rs. 21.92 crores in Navy, claimed to be due to savings on account of various economic measures, were actually found to be due to non-finalisation of contracts, non-receipt of supplies, and slippages in deliveries. Rs. 2.50 crores was sanctioned to the Prime Minister's National Relief Fund out of the Defence Services Estimates without any budgetary support or prior approval of the Parliament, to convert 12 days rations in the year surrendered by the services to the Prime Minister's National Relief Fund.

ARMY

The review on purchase and licence production of 155mm towed gun system and ammunition files and records disclosed several features. The files and records called for from the Ministry in July 1986 were made available from June 1988 including overview and also the conclusion of the Joint Parliamentary Committee. The technical evaluation of the gun system suffered from various deficiencies. It was selected without preparing the General Staff Qualitative Requirements and matrix. Recommendations of the Defence Research and Development Organisation for fresh user trials with the equipment from Bofors, Sofma and

@ No. of 2 of 1989 signed by Shri R.V. Bansod and countersigned by Shri T.N.Chaturvedi on 26th April, 1989 and presented on 18th July, 1989.

Voest Alpine were not pursued. Army Headquarters preferred Sofma gun system on six occasions between December 1982 and October 1985 but in February 1986 reversed its preference and recommended Bofors. The deliberations of the Negotiating Committee sufferred from certain constraints but it recommended on 12th March, 1986 the issue of a letter of intent on Bofors without satisfying itself on all apsects of purchase, licence production, credit and other arrangements and letter of intent was issued on 14th March, 1986 without settling all aspects and there was no follow up action by the Negotiating Committee of its own recommendation. The assessment of costs leading to the award of contract to Bofors was flawed in several respects. Additional cost of improved maintenance of coverage required for the Bofors gun, which was prone to defects and the advantage of operating Bofors gun through a smaller crew were not assessed. For obtaining technology for licence production from Bofors a liability of Rs. 42.73 crores was ignored. Ammunition worth Rs. 328.98 crores was ordered after diluting the minimum acceptable parameters. An exception was made to the Government's general policy of paying for imports in the currency of the country from where imports were made by agreeing to repay 58% of the credit in Deutsche Mark. While the lender had the right to terminate the credit agreement under certain contingencies, the borrower had no such right. No categorical written assurance was obtained from Bofors in regard to employment of agents, despite Government's policy to eliminate them, which precluded from asking any reduction in cost to the extent of payment made to agents. After the clearing of the agreement the Prime Minister's office conveyed *inter alia* that the evaluation procedure was not thorough and alternative techniques should be out lined for evaluation, which was neither complied with nor new methodology worked out till January 1989. The equipment issued was inadequate even for a single regiment being equipped with full complement of the gun system. The acceptance of a less advantageous time frame for delivery of ammunition than the one offered earlier by Bofors would result in delay of 38 months in equipping certain regiments. Claims for liquidated damages of Rs. 1.28 crores due to slippages in deliveries in respect of certain essential items were raised at the instance of Audit. Rs 14.45 lakhs was paid as penal interest and a sum of Rs. 18.88 lakhs had become payable to the lender due to delay in making certain payments. Sealed cannisters stated to be containing two types of ammunition were found empty, which had serious repercussions, since supplies were normally opened only at the time of actual use. Planning and coordination aspects for the receipt and storage of ammunition required investigation. The decision on licence manufacture of gun system and ammunition was taken without comprehensive assessment of the financial and economic cost involved. The work on licence production had not commenced and no part of the credit had been utilised. Delay would have far reaching effect on defence preparedness as bulk of the gun system and ammunition was to be manufactured in India. The credit agreement for licence manufacture was concluded far ahead of the credit requirements, resulting in avoidable expenditure of payment of fees to the lender of Rs. 1.66 crores upto December 1988.

Excess Commission of 3.15 to 23 per cent over the norms prescribed by the Ministry of Defence was paid to the Indian agents of foreign suppliers by DGSD amounting to Rs. 52.14 lakhs. Overpayment of Rs. 102.76 crores was made to the Defence Civilians by adhering to the old rates prevailing before February 1973. Rs. 5.04 crores were disbursed as ration allowance to Defence civilians at operation units and later static units/formations and to all Defence civilians on the rolls of the Zonal Chiefs of Jullunder, Chandigarh and Bhatinda on the basis of certificates issued about deployment. No records to identify the names of persons actually deployed for the purpose or the precise nature of duties assigned to them in the deployment were available in the office concerned.

The review on working of Embarkation headquarters highlighted that certain deficiencies pointed out in the past on which specific recommendations were made by the PAC persisted. Delays in clearance of sea and air cargo resulted in avoidable payment of Rs. 43.22 lakhs on account of wharfage charges and Rs. 40.06 lakhs on warehousing charges respectively; claims for shortlanded/damaged cargo for Rs. 12.68 crores were pending settlement with various agencies; loss of claims of Rs. 84.55 lakhs due to delay in marine survey and defective preparation of documents to suppliers, rejection of claims of Rs. 12.44 crores out of refund claims of Rs. 44.20 crores preferred on the customs authorities, non-redemption of personal deposit bonds for Rs. 4.30 crores for want of shipping documents, priced invoices, requisite certificates etc. and non-availment of Rs. 1.50 crores on sea-freight paid at destination from the carriers were the other comments. Under weaponry and allied equipment, 1,100 sight instruments for a weapon were imported by air between April 1985 and September 1986 at a cost of Rs. 4.60 crores to meet inescapable requirement of the Army for the operationally priority areas. 896 instruments were defective and subsequently repaired by them; 296 instruments costing Rs. 1.14 crores have not been collected/inspected so far and 633 instruments valued Rs. 2.74 crores were held in stock in the depot. Certain type of guns manufactured indigenously since 1973 were found defective in 1975 and the modifications in its design were identified in 1979 and technically approved in 1982 but production continued of the earlier design till March 1983. The needed modification kits ordered on an ordnance factory in July 1983 at a cost of Rs. 3.62 crores due in March 1986 have not been supplied and the guns continued to be defective. Avoidable expenditure of Rs. 44.39 lakhs was incurred due to acceptance of rate with escalation clause without any ceiling by private firms for supplying track links in preference to rates-fixed price. 739 xenon arc lamps costing Rs. 92.32 lakhs was imported by Army Head quarters by air between November 1986 and October 1987, which were inspected after a delay of 3 to 14 months; 309 were found defective and one deficient, costing in all Rs. 38.73 lakhs and 426 serviceable lamps costing Rs. 53.22 lakhs were held in stock as there was no demand. 97 amplifiers were imported at a cost of Rs. 17.31 lakhs and transported by air between November 1982 and January 1984 and only four of them were in use; 93 were lying unutilised and 34 of them in defective condition with the Indian agent, who had been paid commission in excess of the permissible norms. Non-availment of rate quoted for refurbishing of some pieces of imported weapon within the stipulated date necessitated refurbishing them on which extra expenditure of Rs. 13 lakhs was incurred, besides transportation charges amounting to Rs. 0.34 lakh.

LOGISTICS AND TRANSPORT

Cracks in the aluminium girders had rendered 10 assault floating bridges, both imported and Indian, ineffective and there was shortfall of 14 bridges in Army's operational requirement. The quality of aluminium alloy used in the girders was not suitable for use in the tropical climate. The extrusion of hollow profile could not be set up at the ordnance factory because of limitation of press facilities, which necessitated import of girders. Replacement cost of cracked girders would be more than Rs. 9.54 crores. Development of indigenous manufacture of manually launched assault bridges by the DRDO was given up after spending Rs. 24.72 lakhs and four bridges of 49 metres span were sought to be imported but the Ministry of Defence did not decide on the tenders, which resulted in re-tendering and escalation of cost by Rs. 62 lakhs. Contract did not provide for option clause, despite the need for more number of bridges. Supply of 16 more bridges was ordered in January 1984 but with the same supplier at a further enhanced rate, the additional cost being Rs. 2.41 crores. There was delay in placing of orders for 2500 engines for shaktiman vehicles in favour of the highest bidder which escalated cost. Repeat order for 1148 engines were also placed on the same supplier. The resultant extra expenditure compared to the lowest bid was Rs. 6.16 crores and compared to the rates of next lowest bidder, whose engine found to be generally suitable, during evaluation, extra expenditure was Rs. 1.96 crores. 20 ply nylon rating tyres for certain types of vehicles purchased in about 34 months time which resulted in escalation of cost of Rs. 15.80 lakhs. A shunter procured in March 1985, for shunting jobs inside an ammunition depot at a cost of Rs. 14.95 lakhs remained idle. 13,130 wooden oars were purchased, as against the maximum annual demand of 740 wooden oars and 10,663 oars costing Rs. 13.69 lakhs were found to be substandard. Inquiry proceedings were not finalised against an officer held responsible for the heavy leakage of diesels in one of the tanks resulting in loss of Rs. 2.71 lakhs on the plea that the officer had retired but he was re-employed later and continued in service. Three forging machine hammers for Rs. 76.93 lakhs procured in 1984 and 1987 for use in Army Base Workshops remained unutilised.

Due to the failure of the canteen stores department to conclude separate contracts for the supply of the cheapest brand of rum during 1981 to 1985, extra expenditure of Rs. 85.38 lakhs was incurred. Delay in timely processing of tenders in an equitable manner necessitated purchase of 245 tonnes of tinned meat involving additional expenditure of Rs. 8.18 lakhs. Two public sector undertakings availed of unintended benefit of advance of Rs. 69.94 lakhs paid to them by way of interest, notwithstanding their failure to supply the contracted quantity by stipulated time. Urad dal costing Rs. 20.56 lakhs purchased after inspection was subsequently found to be unfit not only for human consumption but also as animal feed. The extra contractual payment of Rs. 4.96 lakhs was made to a contractor. Extra expenditure of Rs. 1.66 crores was incurred in procurement of 46.13 lakhs vests through the Department of Defence Production and Supplies. The stock of paints, soap etc. costing Rs. 46.69 lakhs was found sub-standard in a Central Ordnance Depot and stock of Rs. 21.51 lakhs was still lying unreplaced by the suppliers and extra expenditure of Rs. 4.05 lakhs was incurred in meeting urgent requirements. Multi vitamin capsules supplied by a private firm in 1986-87 costing Rs. 13.44 lakhs after inspection were on subsequent inspection found to be substandard but while reporting the quantum for replacement by the supplier, only Rs. 3.41 lakhs worth sub-standard stock was found with the users and the defective supply was yet to be replaced, despite a delay of 2 years. Overpayment of Rs. 2.29 crores was made to Army personnel in excess of their entitlement by the Regimental officers and recovery of Rs. 81 lakhs was considered difficult or doubtful.

ORDNANCE AND CLOTHING FACTORIES

Test check of the working of the selected ordnance factories disclosed that utilisation of installed capacity was less than 60 per cent in three factories; in 10 out of 61 special items of weapons and ammunition less than 50 per cent of the production target could only be achieved due to delay in manufacture of components, failure in accuracy proof, design deficiencies etc.; 181 indents pertaining to the period 1966-67 to 1980-81 were pending in March 1987; 21,915 manufacturing warrants valued Rs. 104.22 crores issued from 1960-61 to 1985-86 were outstanding in April 1987 and the stock verification showed declining trend in surpluses and deficiencies but 1,66,346 items were not verified in 7 factories during 1986-87.

MAIN BATTLE TANK

The project for indigenous design and development of Main Battle Tank Arjun, by Defence Research and Development Organisation sanctioned in 1974 at an estimated cost of Rs. 15.50 crores envisaged manufacture of 12 prototypes to be offered for trials by April 1982 but till August 1988 eleven protoypes had been built with imported engines and transmission units and with imported/indigenous sub-systems and components. A fully integrated prototype has not yet been given to users for their full-fledged evaluation. Bulk production of tanks scheduled to commence from 1984 is expected to commence from 1991 only with imported engine and trasmission unit. Even after 14 years of research work incurring an expenditure of Rs. 118.22 crores, a complete redesign of the engine has been thought of and the revised project estimate was Rs. 280.80 in 1987 with a foreign exchange component of Rs. 102.32 crores. Over-estimation of the competence to develop a tank on a totally indigenous design, was the main reason for the delay and the project was too complex to achieve the task. Major systems were still under development and dependence on import of foreign components/sub-systems could not be ruled out. The long and interminable delay in indigenisation can seriously affect the defence preparedness.

Delay in completion of a project for the production of weapon and the related ammunition resulted in import, costing Rs. 16.25 crores to meet the requirements of the Army during 1982-84. Subsequent imports were also made of components, nearly 35% of the total cost of production, thereby defeating the object of indigenisation in the interest of strategic necessity and self-reliance. A project sanctioned in 1982 at a cost of Rs. 8.48 crores for augmenting facilities for production of vehicles scheduled to be completed by March 1985 was now expected to be completed in July 1989 and the Army had to purchase 1000 vehicles from trade at an extra cost of Rs. 10.27 crores. Production of a fuze for an ammunition was not in accordance with the drawing stipulation resulting in the rejection of filled fuzes valued Rs. 146.60 lakhs and warranting rectification etc. of empty fuzes valuing Rs. 107.70 lakhs, which in turn affected the production of the ammunition resulting in heavy imports to the tune of Rs. 2575 lakhs by the Army. Use of a fuze in different ammunition without basic investigation in regard to its suitability resulted in the failure of the ammunition leading to rejection and banning of fuzes valuing Rs. 38.88 lakhs and Rs. 32.40 lakhs respectively. Bulk production of a gun without conforming to the quality requirements and without establishing design parameters resulted in the wasteful production of guns valuing Rs. 83.36 lakhs. Manufacture of fin assemblies and consequential extra expenditure of Rs. 39.30 lakhs on their replacement and modification was commented upon. Rs. 19.96 lakhs was blocked in procurement of large quantity of annealed aluminium alloy strips. Development of productionisation of an ammunition of a faulty design caused loss of human lives and destruction of Government property and its eventual abandonment resulted in wasteful expenditure of Rs. 14.27 lakhs. Defective manufacture of another ammunition resulted in a loss of Rs. 5.07 lakhs and an extra expenditure of Rs. 3.62 lakhs on their rectification. Omission to specify a condition of the material in the indent and subsequent contract resulted in the rejection of 150 tonnes of imported aluminium alloy bars valuing Rs. 63.61 lakhs. Infructuous expenditure of Rs. 50.11 lakhs was incurred in procurement of two imported gas plants for the production of steel cases without sufficient technology and knowhow. Infructuous expenditure of Rs. 13 lakhs was incurred in procurement of furnace without assessing the prospect of its actual use in a factory.

The review on development of a cantonment at Barapani brought out that it was sanctioned in April 1969 at an estimated cost of Rs. 28.51 crores to be completed by 1979-80 but was actually started only in 1977-78 due to delay in acquisition of land and the cost of project escalated to 55 crores in 1978. Rs. 23.93 lakhs was incurred on the pay and allowances of the construction staff, watch and ward and transportation of stores, which was found surplus and transferred to other units, rendering the expendtirue unfruitful, as no worthwhile construction had started till March 1977. The physical progress of the project till June 1988 did not match the financial outlays thereon and indicated further time and cost over-run on the project. Defective administration of contracts caused extra expenditure of Rs. 17.53 lakhs on arbitration awards.

WORKS

A golf course at Cochin had been constructed at a cost of Rs. 9.20 lakhs under a false cover of sanitation improvement work. Swimming pool built at a cost of Rs. 24.45 lakhs in 1980 for training of troops remained non-functional due to leakage of water and until repairs costing Rs. 5.93 lakhs was completed it could not be put to use. Government had been put to an extra liability of Rs. 24.31 lakhs in six cases of arbitration awards on account of non-adherence of contractual provisions, delay in issue of cement, steel, bitumen, etc. to be supplied under the contract and anomalies in contracts, besides incurring expenditure incidental to litigation. Out of three overhead tanks, one collapsed in January 1983 soon after its completion, while testing and remaining two developed cracks and Rs. 15.92 lakhs was spent on reconstruction of one tank and repair to other two tanks. A central sewage system executed between 1977 and 1985 at a cost of Rs. 98.78 lakhs collapsed due to faulty construction, laxity in supervision of works during execution and poor maintenance, which were noticed in 1985. Restoration of the collapsed portions of a compound wall three years after construction on new design costed Rs. 5.05 lakhs and soundness of the remaining portion was doubtful. Delay of nine years in augmenting petroleum reserves of the Air Force due to lack of coordination between the agencies involved resulted in cost escalation of Rs. 44 lakhs and the bulk petroleum facility is yet to be taken over by Air Force. Loss of revenue of Rs. 9 crores during three years ending 1986-87 was sustained due to delay in triennial revision of all India flat rates for water supply.

Research and Development Organisation : The Research and Development Organisation did not maintain log books regarding the utilisation of equipments procured by them for specific projects or for build up. 15 laboratories held 33 equipments costing Rs. 461.75 lakhs, includig imported 24 equipments worth Rs. 440.40 lakhs, which remained unutilised for periods varying upto nine years. There were delays in checking the equipments received for deficiencies, delayed action to procure essential items to make the equipments functional; delayed or/ poor response on the part of the suppliers/Indian agents in attending repairs; non-fulfilment of erection/commissioning obligation by Indian agents and non-synchronisation of receipt of equipments with connected civil works and vice versa. Stores imported by air were not cleared promptly resulting in avoidable payment of Rs. 12.28 lakhs as warehousing charges. Refunds on duty-free imported consumables amounting Rs. 14.74 lakhs had not even been applied for.

Irregular cases of financing of tungsten ore concentrate project involving Rs. 195.50 lakhs, which was outside the charter of duties of

Defence Research and Development organisation, were commented upon. During the course of acquisition 5.51 lakh bighas of land in 1983 for Rs. 20.68 crores under urgency clause of Rajasthan Land Acquisition Act 1953 some owners obtained a stay from High Court and additional relief was given under the Central Land Acquisition Act 1894, which included Rs. 9.39 crores interest and no action was taken to get the Court order amended. Rs. 1.73 crores on interest for the period covered by the stay order, which was not covered either under CLA Act or RLA Act constituted extra expenditure.

REACTION

The Report sent to Government on 26th April, 1989 was laid before the Parliament on 18th July, 1989, which would have ordinarily gone unnoticed, since delayed presentation of Reports was not uncommon, either by the Government of India (which has a better record of performance in this sphere) or State Governments, but in view of what it was alleged to contain, the misgivings about the motive behind belated submission were expressed by members of Parliament. Government's explanation that the time taken was normal to follow the procedure prescribed for processing it did not carry any conviction. Presentation of Report was followed by unprecedented uproar and turmoil inside the Parliament -the opposition demanding an immediate discussion of the Report and the Treasury Bench opposing it and the opposing stands taken by ruling party members and the opposition almost stalled the proceedings in the Parliament for few days. These were widely commented in the media on familiar lines. The Speaker allowed the discussion of the Report but by that time the opposition had changed the strategy and demanded resignation of the PM, without moving a no confidence motion. Pitted against the big majority of Government, a determined opposition walked out and later as many as 100 members of Lok Sabha resigned enmasse. Never in the history of Indian Parliament had a group of opposition parties walked out or resigned on audit findings in a single para of the Report of CAG. However, the discussion of the Report on stipulated dates took place, mostly by ruling party members including the Ministers, which broadly confined to defence of the deal, under writing of the findings of JPC and outright condemnation of the CAG's Report in a manner and style, that denigrated the institution of CAG enshrined in the Constitution, and the Act thereunder. These open attacks caused irreparable damage to the SAI, built up in the true tradition of parliamentary democracy in a federal set up by the distinguished holders of the office of CAG, the Executive and Legislative Wings of the Governments both at the Centre and in the states - not to mention the personal hurt it must have caused to the incumbent, who did what he held to be true and fair, which he has sworn to do, when the Government appointed him as CAG. Conventions and precedents were thrown to the winds to gain immediate political mileage out of the whole episode, all at the cost of the institution of CAG. Even the communication sent by him to the Speaker was lost in the din and bustle of the euphoria generated by ruling party members, who revelled on abuse, vituperation and unparliamentary language. The damage was done and non-expunction of the remarks or words spoken by many members in the Lok Sabha - although they were expunged in the Rajya Sabha by the Chairman, added salt to the bleeding wound inflicted in open day light in the privileged precincts of the House. Over a thousand columns in the newspapers were written in few days - an astounding display of national awareness and interest, despite the newsprint scarcity. The media highlighted what they saw in the para and individual newspapers or groups of newspapers exhibited well known postures and familiar attitudes, which, though went beyond what was contained in the para, but on the whole endorsed the audit findings. The opposition parties, who demanded the quite unusual and unconventional practice of a discussion of the Report, against the convention of remitting all Reports to the PAC, which they had refused to join earlier in protest against the decision of the Speaker in nominating the Chairman for the year, were thus not present in the House, either to defend the CAG or comment on his findings which they had unanimously endorsed, both inside and outside the House, as a vindication of their own stand on the deal. That left the field open to the ruling party members, who worked overtime to run down the CAG and the deliberations reached the peak, when the Defence Minister pleaded for rejection of CAG's Report. There was no voting but the verdict was clear - the Report has been talked out by the whole House, though depleted by the absence of opposition, which rendered the whole effort puerile. Never before has such a situation, where both the ruling and opposition parties, jointly contributed for rendering the independent constitutional authority a great disservice and harm.

The broad issues, which emerged during the discussion were that the CAG has (a) transgressed his authority and gone beyond the legitimate scope of audit, (b) commented upon the passed judgements on purely technical matters, which he was not qualified and competent to do and thereby has arrogated to himself the right to challenge the decisions taken by the experts in the Ministry of Defence and Government, (c) was not competent to go into the Bofors contracts in as much as the Joint Parliamentary Committee had already gone into it in depth and reported its findings, which were accepted by Govt. and (d) was not justified and entitled to re-open the matter based on the principle of law of *resjudicata*. It will be seen from the para condensed above that it only brought out findings on audit of a transaction and has not passed any judgement, although it left quite a few doubts or queries to be answered by those who were responsible for the deal. The question of competence or discretion to report on such matters has been settled beyond controversy long before - by the Public Accounts Committee presided over by Shri Mahavir Tyagi (a Chairman nominated from the ruling party) and the Parliament - and subsequently both by the statute, convention and practice established in the Parliament and the state legislatures, as explained elsewhere. The fact that a Parliamentary Committee had gone into the deal, despite boycott by major opposition parties in the functioning of the Committee, and submitted its report, did not abridge the CAG's authority or duty to look into the transaction, as his constitutional authority is total and not subjective and report on it in his conventional Audit Report, both under the Constitution and the CAG's Act thereto. In fact, he had called for the relevant papers and files etc. for audit in July 1986, which were made available from June 1988, presumably since the JPC was looking into it. He had offered to assist the JPC without compromising his duty to examine the relevant papers, as and when made available and making a report later. At that time, he could have neither foreseen the JPC findings nor anticipated his own findings after scrutiny of the relevant papers by the Defence Audit branch and to question his competence after he has submitted his Report is neither fair nor correct. It is a known fact to Administration - both at the centre and the states - that CAG does not ordinarily involve himself or his departmental officers in any departmental, governmental or even a Parliamentary enquiry, since no such function has been vested in him either under the Constitution or the Act made thereunder and at best he can only offer informal assistance without compromising his constitutional position as an Auditor of the Government. This is true even of his relationship with the PAC or the COPU. Afterall, the final decision rested with Government. The purpose of his Report was completely lost since it did not reach the proper destination, namely the PAC, but was prematurely talked out in the House at the expense of the CAG of India. Thus, one of the few hundreds of paragraphs incorporated in his several Reports of a year on Government of India presented to the Parliament was turned into political football by those, who should have normally sat together in a Committee to examine and make their recommendations to the Government of the day to act upon. It was unfortunate, unseemly and unheard of in the annals of Parliamentary democracy and the Public Accounts Committee system in the country.

AR (1987-88) ON AIR FORCE AND NAVY*

AIR FORCE

(i) *Air Transport Facilities for VVIPs and VIPs :* The review of procurement, utilisation and maintenance of aircraft with a communication squadron, for providing air transportation to VVIPs and VIPs, revealed financial irregularities, uneconomic use of aircraft and violation of rules and procedures. Delay in the procurement of Boeing 737 aircraft resulted in hiring of aircraft and payment of lease charges amounting to Rs. 13.85 crores. The continued leasing of air craft even after the induction of Boeing 737 aircraft led to payment of Rs. 1.81 crores. The premature withdrawal of certain MI-8 procurement of an aircraft of a larger capacity vis-a-vis the actual requirement proved uneconomical. Incidence of empty flying was high, resulting in an avoidable loss of Rs. 8.70 crores. The flying hours utilised on training of pilots were abnormally in excess of accepted norms and cost on this account was Rs. 2.26 crores. Relatives and friends accompanied VVIPs and VIPs as officials on several occasions in contravention of rules and the rates for official and unofficial travels have not been revised in line with increases in costs. There was need for comprehensively evaluating the cost effectiveness of the services provided by the squadron as well as for ensuring that the essentially sound rules and procedures are adhered to scrupulously.

(ii) *Medium Tactical Transport Aircraft :* The urgent need of the Air Force to identify and induct a suitable medium tactical transport aircraft (METAC) was recognised in 1965 and after considering various options, it was decided in 1972 to induct the HS 748 for the METAC role, which was later found to be unsuitable. Subsequently, in 1984, another aircraft (AN-32) was imported. A review of the selection and procurement of the medium tactical transport aircraft revealed inadequate planning arrangements for its timely and cost effective induction. The HS-748 aircraft was allocated to the Army and the Air Force, even though both Services had emphasised, that it did not meet their requirements, which resulted in a largely infructuous investment of Rs. 76.87 crores. The delay in the selection of the aircraft led to the sub-optimal utilisation of heavy transport aircraft in the METAC role. There were problems with the timely ordering of AN-32 aircraft and in not exercising option clauses advantageously and subsequent mismatch between the induction of the aircraft and the creation of maintenance support facilities.

---

* No. 3 of 1989 signed by Shri Baldev Rai and countersigned by Shri T.N. Chaturvedi on 4th April, 1989 and presented on 10th May, 1989.

(iii) *Procurement, Manufacture, Operation and Maintenance of an aircraft :* The review brought out that the licence manufacture of the aircraft, imported in 1976 and inducted in 1977 undertaken by Hindustan Aeronautics Limited alongwith the repair and overhaul of the aircraft and associated equipment revealed poor planning, project management, implementation and monitoring. The basic economic and physical targets set were not realised satisfactorily. Due to lack of adequate planning, the project for manufacture of the aircraft had to be foreclosed. Besides, the reliability of the aircraft produced indigenously was poor resulting in premature servicing at an avoidable cost of Rs. 30.44 lakhs. The repair and overhaul facilities for aero-engines could not be established due to poor planning. The work was, consequently, offloaded to foreign manufacturers at a cost of Rs. 45.68 crores. Full exploitation of the aircraft was doubtful due to non-availability of sufficient aeroengines. Further, maintenance backing for the aircraft was also uncertain with inadequate indigenous repair and overhaul facilities.

(iv) *Development and Operation of a Computerised Inventory Control System at an Equipment Depot :* Based on a feasibility study in 1978 to computerise the inventory control system at an equipment depot, an electronic data processing (EDP) system, costing Rs. 45 lakhs in foreign exchange was acquired and commissioned in 1983, which was made operational in 1985. The acquisition of the system revealed planning infirmities, such as, the absence of an EDP strategic plan and lack of clearly defined objectives, which contributed to delays in systems analysis and design. Although the feasibility study recommended an EDP system manufactured by a public sector undertaking, an entirely different system was imported, which was not compatible with the existing system at Air HQ. A manual system has been run in parallel with the computerised system for over three years thereby affecting the economics of the project. Finally, costs, benefits and experience have not been evaluated.

An avoidable payment of Rs. 62.21 lakhs was made as agency commission in violation of the Ministry's guidelines issued in 1977. Defective procurement procedures were followed in the acquisition of aircombat simulator, a crucial technology intensive training equipment, costing Rs. 12.4 crores. The prototype developed for a jet trainer aircraft costing Rs. 6.65 crores in nine years fell materially short of specified parameters and consequently, the aircraft could not be used for its intended role and the Air Force reduced the total number of aircraft order and development work was closed in 1984 and anticipated savings of Rs. 5.50 crores had to be foregone in view of the time over-run. An avoidable expenditure of Rs. 28 lakhs was incurred in procurement of Navigation equipment for VVIP flights and the absence of the equipment had imposed operational constraints apart from avoidable stress and strain on the flying crew. Extra expenditure of Rs. 70.70 lakhs was incurred in procurement of an equipment, apart from seven years' delay to obtain the inescapable operational need. Non-establishment of indigenous overhaul facilities on questionable assumptions relating to unit establishment and life extension of the engine and the cost of the delayed decision is yet to be assessed.

NAVY

(i) *Naval Training Establishments :* Review of the activities of INS, Shivaji Lonavala, the premier training establishment for Naval technical and engineering personnel, brought out that training facilities did not match requirements. The inadequacy of the facilities established necessitated a Master Plan with an outlay of Rs. 85 crores to update the facilities to the required standard during the period 1981-91. However, the facilities envisaged to be completed till 1988 have not been commissioned, affecting both training needs and operational preparedness. Shortages in instructional staff adversely affected the training efforts, besides under-utilisation of the training facilities. Tardy progress of the major activities of the project was due to the absence of sound procedures for planning, implementation and monitoring.

(ii) *Establishment of a Communication Station :* Government accepted in 1971 the necessity for a transmitting station to communicate with submerged sub-marines and approved the project in 1976 at an estimated cost of Rs. 12 crores, which was envisaged to be completed by 1984. The project was based on an inadequate technical and financial evaluation. Lack of a systems approach resulted in system incompatability. Consequently, various project activities were not properly dovetailed to ensure synchronisation. There had been serious cost and time overruns. The project cost is presently estimated at Rs. 112.16 crores. It is still to be completed 12 years after its approval. This has led to the placement of an operational handicap on the Navy in an important area of communication and control.

(iii) *Delay in Setting up of Training Facilities :* Certain ships of different types were received and commissioned between 1976 and 1983 and two contracts were concluded with a foreign Government for setting up related training facilities at a cost of Rs. 34.87 crores. There was inordinate delay in installation of the training equipment and the facilities, which were envisaged to be completed by 1982, would now be available by 1990, after 7 to 14 years of the commissioning of the ships.

The time overrun, which was attributed to the delayed completion of the civil works, resulted in non-installation of equipment worth Rs. 24 crores and consequent creation of storage space at a cost of Rs. 28.82 lakhs. The delayed completion of the facilities had an adverse impact of the training needs of the Navy.

Steel bars procured in 1986 without determining its suitability for Defence projects rendered them unsuitable and 2,599.58 tonnes costing Rs. 150.20 lakhs was being held for over two years without any foreseeable utilisation. Irregular procurement of spares worth Rs. 15.77 lakhs for power generating equipment through 84 supply orders, of which spares worth Rs 0.46 lakh only were utilised during the two years for maintenance of the sets. The provision of a crane for a wharf on a previously laid track was sanctioned in 1980, to provide shore support for the repairs and maintenance and it was due for delivery by 1984. Due to inadequate assessment of the track, the design of the crane based on previously laid track had to be changed during its manufacture to match the track and the track itself was removed and relaid, which led to the crane not being made operational even after two years of its delivery (Rs. 69.77 lakhs) and necessitated hiring of crane facilities resulting in additional expenditure of Rs. 6.39 lakhs, besides assets worth Rs. 69.77 lakhs remaining idle.

Construction of Patrol Vessels : Government approved in 1982 the construction of four patrol vessels at a cost of Rs. 120 crores to maintain a certain force level but they were designed around a retrograde propulsion technology, even though more advanced technology for Naval ships was accepted as far back as 1979 and was expected to be delivered by 1988-1989, by which time the cost escalation would be Rs. 201.72 crores. Approval of four more vessels at a cost of Rs. 230.84 crores with such propulsion was given in 1986. There were flaws in selection and procurement of the engine for the vessels resulting in an extra expenditure of Rs. 4.98 crores. The delivery of the engines, which was due in 1983, was made between 1985 and 1986, which delayed the delivery of the vessels by three years.

Import of Data Bus for Certain Ships : Preference of Naval HQ for the Data Bus of a particular firm caused an extra expenditure of Rs. 2.97 crores due to the rejection of another firm's offer, which was techno-economically acceptable. Delay in selecting the Data Bus and concluding the contract, compounded by the delay in delivery, necessitated reversion to the conventional method and procurement of equipment worth Rs. 1.88 crores as an interim arrangement. The Data Bus, delivered between March and August 1988, would be retrofitted during 1988 and 1991 on board the three ships which have already been commissioned. By that time, an indigenous Data Bus which has been developed by a Naval laboratory at a cost of Rs. 4.30 crores would be available.

R&D ORGANISATION

Design and Development of an Inter-Services Pilotless Target Aircraft : The project for design and development of an inter-services pilotless target aircraft (PTA) sanctioned in 1980 at a cost of Rs. 21.50 crores required by the three services for air to air and surface to air weapon training and live firing exercises to be ready by 1985 suffered from cost (Rs. 81.02 crores) and time overruns due to weaknesses in planning, coordination, monitoring and implementation of various project activities. Delay not only led to the piecemeal import of PTAs at a cost of Rs. 21.28 crores but also adversely affected training efforts and evaluation of weapon systems.

Development of a Missile Target : The development of missile target sanctioned in 1974 at a cost of Rs. 3.12 crores to be completed by 1981 was actually completed in 1986 at a cost of Rs. 4.71 crores; by 1980, a project for a more advanced target was sanctioned; not only was the development cost of Rs. 4.71 crores infructuous as the target was not productionised, weapon training too, sufferred due to use of imported targets of limited value.

Working of Naval Research and Development Laboratories : Serious weaknesses in working of naval research and development laboratories at Cochin, Visakhapatnam and Bombay like poor budgeting and lack of effective control, which resulted in serious time and cost over runs were noticed. Dates of completion were not adhered to in 60 per cent of the projects closed during the period 1978—87. The delays ranged upto 13 years in 54 per cent of the cases. The increase in costs varied between 3.8 and 231.7 per cent. Due to lack of effective inventory control and proper stock taking, stores worth Rs. 268 lakhs were not returned to stock and stores costing over Rs. 23 lakhs were purchased just before or after closure of the projects. During 1982—87, machinery costing over Rs. 741 lakhs was purchased but in the absence of proper records it was not possible to verify their utilisation and maintenance. Lack of performance budgeting, systems of planning, forecasting, programming and performance monitoring of the projects also resulted in redundancies in procurement of machinery and creation of assets at huge costs. There was no system to recover costs of development on transfer of technology to various production agencies. The Ministry agreed with the audit findings and stated that remedial action was being taken.

Light Combat Aircraft Project : The development of a multi-role, light combat aircraft to meet the operational requirement of the Air Force after 1990 was sanctioned by Government in August 1983 at a cost of Rs. 560 crores to be completed over a period of 8 to 10 years. As against eleven work centres identified to undertake the development work, only five work centres have been assigned jobs. A monitoring agency was constituted only in June 1984 and technical parameters finalised in 1985. Even the project definition phase has been delayed by more than two years. In the meantime, the escalated project cost is estimated to be over Rs. 750 crores. The power plant project, estimated to cost Rs. 405 crores has not yet been sanctioned. Engine development is behind schedule and the targeted availabity of the production version by 1997 will lead to a mismatch between the production of the aircraft and the availability of an indigenous engine. No decision about weapons for the aircraft has been taken so far. In spite of an expenditure of Rs. 132.26 crores, several targets have not been realised due to weaknesses in planning, monitoring and execution apart from inadequate financial management. Since the air craft will be inducted only by 1996, Government need to review the delays as well as consider alternative arrangements to meet the requirements of the Air Force from 1990 onwards.

Over provision of synthetic resin (Rs. 7.97 lakhs), likely avoidable expenditure of Rs. 18.97 lakhs on supply of modification kits considered essential to remove operational constraints, expected to be completed by 1990 were the other points noticed.

MIX AND SELECTION BY PAC

Army section of Audit Report contained 1065 paras including 17 reviews. AR (1987-88) contained the maximum number of paras -59. The chapters relating to Army included reviews on purchase contracts in two commands (1976-77), review of inventory holding patterns in the MES in a command (1977-78), working of Military Farms, Acquisition, holding and administration of defence lands and buildings in Command (1979-80), introduction of a new system of weapon training (1980-81), idle machines procured from abroad, working of Embarkation Headquarters (1981-82), construction of sub-standard Airfield (1983-84), Military Engineering works (1984-85), Court of Inquiry proceedings (1985-86), working of military farms, Army Services Corps (1986-87), Purchase and license of production of 155 mm towed gun system and ammunition, working of Embarkation Headquarters and Development of a contonment (1987-88). Six reviews were selected by PAC, who presented six reports containing 176 recommendations upto March 1989.

On Air Force, 208 paras were featured in ARs 1948 to 1987-88, which constituted 11.45% of the total number of paras included in the Audit Reports. While the minimum number of paras was one (1956-57, 1962, 1970-71 Reports), the maximum number of paras were 19 (1987-88 Report) and the average number of paras was around 5. Report (1964) contained 12 paras, which constituted 23% of the paras in the Audit Report of the year and 1976-77 Report contained 10 paras, which constituted 18.8% of the paras included in the Audit Report. After the creation of a separate organisation for audit of Air Force, the number of paras were 14 (1985-86 Report), which was 20% of the total number of paras in the Report and 11 in 1986-87 Report, which was 14% the total number of paras in the Report. AR 1987-88 contained 19 paras including 4 reviews. In all, 17 reviews were included in Reports 1975-76 to 1987-88. The reviews were setting up of repair/overhaul facilities for aircraft (1975-76 Report), delay in setting up of repair/overhaul facilities for air craft (1976-77), delay in development and manufacture of an air craft (1978-79), development of helicopter (1979-80), replacement of basic trainer aircraft (1979-80), import of trainer aircraft, working of Base Repair Depots, (1981-82), induction of an aircraft in the IAF, Review of Equipment depots, development and manufacture of a weapon carriage system (1985-86), review on procurement, maintenance, modification and utilisation of Chetak and Cheetah helicopters, and review of Air Force stores held in custody (1986-87), Air transport facilities for VVIPs and VIPs, medium tactical transport air craft procurement, manufacture, operation and maintenance of an aircraft and development and operation of a computerised inventory control system at an equipment depot (1987-88 Report). The PAC selected 4 reviews and presented 4 reports containing 78 recommendations.

On Navy 197 paras appeared in ARs 1948 to 1986-87, which was around 11.59% of the total number of paras included in the ARs. 1987-88 Report contained 23 paras including 3 reviews. While one para each was included in ARs (1949, 1954, 1968, 1971-72, 1972-73, 1973-74, 1978-79, 1979-80), the maximum number, namely, 23 was incorporated in AR 1987-88. No paras appeared in the ARs 1950, 1969-70, 1971 and 1980-81. 13 Reviews on Navy were included in the AR 1974-75 to 1987-88. After a separate organisation for audit of Navy was created, the number of paras increased to 18 (1985-86 Report), 21 (1986-87 report) and 23 (1987-88 Report). The reviews were on execution of Naval project (1974-75), construction of Dry Dock, setting-up of a Steam Test House (1975-76), working of the Controllerate of procurement (1983-84) setting up and working of a Naval Dockyard (1984-85), Naval Fire stations, Reconditioning and Essential Modernisation of Naval frigates, Establish ment of repair facilities for special purpose vessels (1985-86), working of the material organisation, construction of yard craft (1986-87), training establishment, establishment of a communication station and delay in setting up of training facilities (1987-88). Two reviews were selected by the PAC, who presented two reports containing 39 recommendations.

On Ordnance Factories 340 paras and 17 reviews appeared in ARs 1954 to 1987-88, of which 279 paras appeared in the last 18 years' Reports and 252 paras were contributed by the CA/DA, Ordnance Factories. The paras ranged from 1 to 33 (1982-83 Report) and the average number of paras was 9. The first review on Ordnance Factories appeared in the AR 1977-78 and the maximum number of reviews (5) was included in the AR 1980-81, which was contributed by Shri A.P.Ghosh. In all 17 reviews appeared in seven years Reports *viz.* 1977-78. 1979-80, 1980-81, 1981-82, 1982-83, 1985-86 and 1987-88. The reviews were on manufacture of an Ammunition (1977-78 Report), delay in implementation of a Project, under-utilisation of production capacity of an Ordnance factory, manufacture of woollen blankets in an Ordnance factory (1979-80 Report), establishment of production facilities for an ammunition, establishment of a foundry, indigenous manufacture of an ammunition, Rehabilitation of plant and machinery in an ordnance factory, Vegetable tannery (1980-81 Report), Shortfall in production of an equipment, project for production of weapons, manufacture of a gun, inventories and work-in-progress in ordnance factories (1981-82 Report), procurement of plastic containers for an ammunition (1982-83), delay in planning, implementation and achieving objects of a project (1985-86) design and development of main battle tank - Arjun and delay in indigenisation of a weapon and related ammunition (1987-88). Of the 21 paras on Ordnance Factories included in the Reports from 1970-71 to 1973-74, 12 paras were discussed by the PAC, who made 77 recommendations, of which 39 were accepted by Government, 13 were not pursued after receipt of replies, the Committee did not accept 8 replies of the Government and only interim replies were received for 17 recommendations. In the ARs 1974-75 to 1986-87, 190 paras were included, of which 15 were reviews. The average number of paras was 14, the minimum being 7 in 1975-76 and the maximum 33 in 1982-83. Reviews were included in seven years' Reports - a turnover of 2 to 3 reviews per Report. Even after the reviews were introduced comments on individual transactions were conspicuous - reflecting the importance of regularity and compliance audit, despite the existence of integrated Finance/Accounting and internal audit arrangements in the Department/ Ministry of Defence for fairly long periods. Audit Reports up to 1983-84 have been examined by the Public Accounts Committee till March 1989. 19 paras including 4 reviews were selected for examination and 17 Reports were presented by the Committee containing 166 recommendations, of which 80 recommendations were accepted by Government, 46 recommendations were not pursued by them, on 30 recommendations replies of Government were not acceptable to the Committee and on 10 recommendations interim replies had only been received. In 1970-71 and 1971-72, 90% of the paras included in the Chapter on Ordnance Factories were discussed by the PAC. But by 1980-81, the percentage dropped to 8.6. Out of 33 paras in the Chapter on Ordnance Factories in 1982-83 Report, only 1 was selected but was not discussed for reasons best known to the Committee. Since 1972-73 Report the average of paras discussed by PAC was 11.55%. The ratio of paras/reviews selected for examination was 4 : 1. While the comments of the Audit Findings in Ordnance Factories have increased perceptibly, the area of examination by the PAC has regularly diminished. Four reviews were selected by the PAC who presented four reports containing 66 recommendations.

OVERALL PERFORMANCE

In all, the PAC examined, 36 Audit Reports up to March 1989 and presented 61 Reports containing 1821 recommendations. All the paras (740) contained in the Reports 1950 to 1966 were examined by the Committee, who made 764 recommendations/observations; Government accepted 119 recommendations/observations (15.58%); the Committee did not pursue 196 recommendations after replies were received (25.65%); the Committee did not accept replies of Government in 22 cases (2.88%); 2 recommendations of the Committee were not accepted by Government (0.26%) and replies were of interim nature in 48 cases (19.37%) and Government were requested to expedite them. 75 recommendations were covered in subseqeunt reports of the Committee (9.82%). No action taken report was available for 202 recommendations of the Committee (26.44%). After the Committee adopted selective examination of paras from 1967 onwards, 172 out of 681 paras in 19 Reports *i.e.* 25.26 per cent of the contents of the Report, were examined and 41 Reports containing 1027 recommendations/observations presented. The minimum number of paras selected was one (1973-74 and 1982-83) that is 2.5 per cent of the contents of the Reports and the maximum was 25 in 1969 Report, that is 86 per cent of the contents of the Report. The average number of paras selected was 9 per Report, which constituted 25% of the contents of the Reports.

The Committee presented its Reports within a minimum period of 6 months and 21 days (1955 report) and maximum period of 36 months and 22 days (1970 report) after the ARs were presented to the Parliament. The average time lead taken for examination of 15 years' Reports was around 11 months. After the PACs presented their reports, the action taken on the recommendations ranged from 3 months and 20 days to 36 months and 2 days, the average time lead was around 16 months and 28 days. Statement of action taken on earlier reports was included in the Original Report itself upto the AR 1959-60. From the AR 1960-61 separate action taken reports were presented.

Analysis of the 21 action taken reports presented after the PAC commenced the system of selective examination of paras, indicated that in all 1057 recommendations were made in 41 Reports, of which 545 (51.56%) were accepted by Government, 216 (20.44%) were not pursued by PAC, replies on 163 recommendations were not accepted by PAC (15.42%), 4 recommendations (0.38%) were pursued through Appropriation Accounts and replies on 129 recommendations (12.20%) were of interim nature. Time lead in presentation of Reports of PAC ranged from 7 months and 6 days to 11 months and 24 days in three Reports (1984-85 Report) to 24 months and 5 days (1982-83 Report) after the Reports were presented to the Parliament. The average time lead was 12 months although the average number of paras examined were only 8 and PAC presented one Report for even a single para examined by them. In respect of paras/reviews selected by the PAC for oral evidence, the respective departments of the Ministry of Defence sent notes to the Lok Sabha Secretariat on the action taken or proposed to be taken by them on the recommendations made by the Committee in their Reports. Notes on points on which further information was required by the Committee were also sent. The draft notes intended to be sent were vetted by DADS/DA(OF)/DA(AF & N) with reference to the relevant original files and papers based on which the notes were drafted by the Ministry of Defence. In October 1978, it was decided that effective from the Audit Report 1976-77 remedial/corrective action taken notes should be furnished by the Ministry of Defence in respect of audit paragraphs not selected by the PAC for discussion but such notes were reported to have been received only in respect of a few paragraphs. In August 1982 the matter was reviewed and it was decided that no action taken notes were necessary for non-selected paragraphs of earlier Audit Reports for 1976-77, 1977-78 and 1978-79. The action taken notes on non-selected paras in the Audit Reports for the years 1979-80 to 1986-87 were finalised after vetting by Audit in a time span ranging from 2 months to 19 months. Except 2 paras relating to 1985-86 Report and 17 paras relating to 1986-87 Report, action taken notes have been submitted in all cases.

Note:

List of Abbreviations and Sources and References are given at the end of the Chapter 19.

19 Highlights

SELECTED PARAS AND REVIEWS

Important paras included in Audit Reports (DS) along with PAC's recommendations and observations and action taken thereon are discussed in succeeding paras.

PURCHASE OF JEEPS*

Four contracts were entered into by the High Commissioner** for India in the United Kingdom in 1948 with a group of associated private companies for supply of jeeps and other military equipment, without observing the well established financial procedures and practices. Provision for payment of 65 per cent of the price, as and when the goods were ready ex-site for shipment and were certified by the inspectors as to the quantity and specifications, and absence of provision for recovery of damages for non-performance of any of the terms of the contract, except in one contract where security to the purchaser in respect of sums paid in advance of delivery of store was provided, were the unusual features of the contracts, which were terminated after mutual agreement between the parties concerned, since no supplies materialised. The financial sanction initially given for the purchase of Landrovers was modified to purchase of 2000 jeeps of certain specified makes 'warranted to be new or fully reconditioned to be as good as new' to be supplied at a price of $250, each and ten per cent spares certified by a firm of inspectors specified in the contract, as adequate for normal three years' usage under war conditions in accordance with lists to be supplied and agreed, at a price of $20,000, six weeks to 150 days. The terms of payment were 65 per cent, as and when goods were ex-site ready for shipment and so certified by the Inspectors, both as to quantity and specifications and 20 per cent on receipt in good condition in India. Neither any provision for security deposit nor claim for damages was made in the Contract. The firm initially submitted inspection certificates in respect of four vehicles for establishing a standard for the reconditioning of vehicles and an on account payment of 65 per cent of the cost of 502 jeeps (*i.e.* $81575) was made to the firm without any certificate of inspection. A second claim for 65 per cent of cost or $81,575 for a further instalment of 502 jeeps, was

* Para 54 containing 11 sub paras on 7 pages, AR 1950 signed by Shri S.M. Banerjee and countersigned by Shri V. Narahari Rao on 3rd August, 1951 and presented on 9th August, 1951.

** Shri V.K. Krishna Menon

preferred without the inspectors' certificates. The inspection certificate was revised later confining detailed examination to 10 per cent of the jeeps offered and partial inspection the balance by the factory engineers and 65 per cent of the price of 502 more jeeps was paid. Shipments actually commenced 5 months after the stipulated date, and upto April 1949, 155 jeeps were supplied in seven months. 20 per cent of the cost of 155 jeeps amounting in all to $7,750 was paid. Inspection in India by the technical officers of the Army classified 151 of them as Class IV category, *i.e.* vehicles capable of being made Class II by replacements of major assembly or repairs and the remaining 4 as class V *i.e.* vehicles capable of being reconditioned to acceptable standards only by heavy repairs. The High Commissioner was cabled to suspend further shipment until agreement could be reached for ensuring a more satisfactory inspection before despatch. The cost of reconditioning these to the acceptable standard (*i.e.* Class II), though not upto the contract specifications (*i.e.* class I), was estimated later to be about Rs. 1,55,000 on spares and labour only and the list was still to be prepared and agreed upon, despite $20,000 specified in the contract for making it. The scale of spares prepared by the company was found totally inadequate and the company contested the scale of spares considered necessary by the authorities in India as it would cost ten times the amount provided for in the agreement and no spares were supplied. The financial effect (excluding the freight charges of $5110-11-1 on 155 jeeps) was of the order of Rs. 24,33,700 upto the end of February 1951 and the likely loss was estimated at $1,43,775. The Ministry's reply to the para invited merely a reference to the statement made in the Union Parliament on the 9th April, 1951 by the Hon'ble Defence Minister to the Government of India, wherein the circumstances in which the earlier contract was concluded for goods urgently required in a sellers' market were explained, as also the steps taken to stop further shipments as soon as it became evident that the jeeps were not of the quality required and under the new contract if the supplies were made in time there would ultimately be no loss. The documents relating to the assignment to firm 'B' of the contract between Government and ANTI MISTANTS were not found to be available but it was understood that credit for $1,43,162 was presumably given by the firm since they expected to get the assets under the earlier contract and all other advantages accruing thereunder. The major observations were that the selection of the Company for supplies on an emergency basis proved unfortunate, the exact nature of the Bank reference, the scope of its certification and the firm's status etc. were not clear, provision for the payment of 65 per cent of the cost of the jeeps on the certificate of inspection, omission to provide adequate security, lack of care in drawing up the contract and non-enforcement of the terms as was agreed upon leading to overpayment. The abandonment of the original agreemenmt spoke of its inadequacy and ineffectiveness. The recovery of the losses under the first contract was dependent upon the satisfactory and complete execution of the new contract, *i.e.* if all the 1007 jeeps were supplied in accordance with the new contract. The entire management of the first transaction was unbusiness-like and proved deterimental to the interests of Government.

In fact, the then CAG, Shri V. Narahari Rao had shown some of the criticisms on the contracts for jeeps made by the Auditor of Indian Accounts London and the Director of Audit, Defence Services to the Finance Minister, Shri C.D. Deshmukh on October 1950 and the draft paras proposed to be included in AR 1948-49 were sent to the High Commissioner, London, Defence and Supply Ministries'. He drew the FM's attention on 9th April, 1951 to the reported criticism* by the Estimates Committee and Parliament during discussion on Defence Estimates, based on rumours and information from unauthorised sources, which might prejudice an impartial examination by the PAC of facts disclosed in AR. He also referred to the reported statement** of the Prime Minister deprecating the tendency to criticise the Government and offering to order an enquiry provided there was a *prima facie* evidence to support allegations against the officials and referred to the speeches made in the Parliament and offering to resign immediately if any of the charges was correct**. Such statements not only prejudiced the work of PAC to be performed in an atmosphere of judicial detachment but also caused considerable embarrasment to him in the submission of the Report to the President and through him to Parliament. These were extremely disturbing to him but "I will do my duty without fear or favour affection or ill will. I have kept you fully in touch with and I am confident that as my counter part in safeguarding financial regularity and rectitude, I shall have your moral support. Without being impertinent, may I add that I have absolute confidence that Panditji himself will support and stand for truth, when it is established." When the whispering compaign of CAG having briefed MPs started, he informed the FM, that when he has a right to report formally to Parliament through the President, neither he nor his officers would be so stupid as to seek futile intervention of individual member of Parliament and allow them to steal any thunder and mess up matters and the whispering calumny deserved to be treated with contempt but 'he mentioned it to show how difficult it was to be

* Statesman (Dak edition) dated 8th April, 1951
** Hindustan Times dated 10th April, 1951

CAG of an infant Democracy and hoped to do his duty with God's help'. The Defence Minister made a statement in the Parliament on 9th April explaining the whole transaction, the credit given by the firm for the overpayment and the altered position under the new contract, which was followed by a brief intervention by the Prime Minister to bring home that the worst scandal about the contract was the use of the word 'scandal' and the arrangements made to avoid loss and the lessons learnt from the deal and stated that enough enquiries have been made and no further enquiry was called for. The Finance Minister replied to the CAG that in view of the provocation and strong language used in the Parliament by some Members, it would not have been possible for the Government merely to say 'await the Comptroller and Auditor General's Report' and did not think that anything that had happened should deter "CAG from stating what he found on the evidence available to him'. Perhaps, that was the minimum that even a senior Minister in Government, who was supposed to present the case of CAG in Parliament, could do under such circumstances. But the first CAG of India chose to take the normal official track to explain the action taken by him, which was as clear as day light, in the performance of the duty entrusted to him, which he was sworn to do, when he assumed the office, despite all the atttempts to cloud the issues - in the true tradition and discipline of a seasoned civil servant - rather than succumb into any temptations to attract media attention, - was a measure of inherent strength acquired by the Audit Authority by then.

The Public Accounts Committee* agreed with the Audit comments and desired that periodical progress reports regarding the fulfilment of the second contract be sent to enable them to assess the ultimate extent of the loss. The terms of delivery were modified to complete the entire supply by September 1952. Out of 1007 jeeps, only 49 jeeps arrived and one jeep was held in Belgium as a specimen to guide inspection, which reduced the loss by only $7,100. In January 1952, the firm wanted a revision of the original terms of the contract by providing for a 'price revision clause' to cover a rise in the price of jeeps to $590-15-0 from the date of the original contract and for opening a letter of credit on the basis of the revised price to cover the balance to be supplied, and the Government of India decided to give notice to the firm calling upon them to perform their part of the contract failing which the government would hold the firm liable to damages for breach of contract. The firm repudiated any responsibility and ended the contract. Legal steps to be

* Second Report of the PAC on the Accounts of 1948-49 (Railways and Defence Services).

taken in the matter were under the consideration of Government. Effective measures to prevent the recurrence of such disquieting incidents were to be taken. Audit observed that direct contract between the Indian Government and the manufacturers with the assistance of the foreign Government concerned appeared to have been feasible and the interposition of intermediaries involved payment of their margin. The contracts were concluded without the necessary financial concurrence in regard to the reasonableness of prices. The main contracts were to become effective only after letters of credit had been opened in favour of the contractors. Within a week of the opening of the letters of credit, payments to the extent of 50 per cent of the entire contract prices were made on production of certificates from the manufacturers that raw materials required for the manufacture had been acquired for the equivalent value, which in effect amounted to payment of considerable sums in advance to the contractors long before supplies were received. The contract conditions did not specify the method of payment for supplies, but provided only for the opening of letters of credit for such amount and on such other terms as might be agreed upon and embodied in the letters of credit which was an unusual procedure. The PAC agreed* entirely with Audit observations on the various aspects of this deal and noted with concern that the recommendations** made by the Estimates Committee for setting up of a Committee to investigate the propriety and competence of the authorities concerned for entering into such defective agreements and drawing up of model contract forms for making such purchases in future and for taking early steps to take disciplinary action against officials, who were held responsible for the various defects and irregularities and to suggest such remedial and preventive measures as may be necessary to avoid recurrence of such state of affairs in future. The Committee observed that there was a tendency on the part of the representatives of the various Ministries, who appeared before them, to shift responsibility from one Ministry to the other, which showed an extraordinary state of affairs and the area of responsibility between the indenting and the Administrative Ministries had remained undefined. There was no doubt that while the Ministry which met the expenditure from its grant for any stores or goods purchased through the Purchase Organisations was responsible to answer all questions concerning the transactions before the Committee, the Administrative Ministries which were directly in-charge of the Purchase Organisations or for the administration of the Missions abroad

* Ninth Report (1953-54) on the Accounts of 1949-50 and 1950-51 (Defence Services). ** Para 37 of the First Report (1952-53) of Estimates Committee.

through whom such purchases might have been made should also own responsibility in-so-far as they were concerned. The Committee was surprised to find that the Ministry of Defence, which was the indenting Ministry, the Ministry of W.P. & S., which was concerned with the over-all purchase work of the Government of India, and Ministry of External Affairs, which was in administrative control of the office of the High Commissioner were not in a position to take final responsibility in the various matters that were raised by the Committee and pointed out the need to remove forthwith confusion or fluidity in the sphere of responsibility between the various authorities, which came into the picture to place the matter on a satisfactory footing. A detailed note as to the action which Government proposed to take was called for in this connection. The Committee understood that the Financial Adviser attached to the High Commission in London was an officer subordinate to him and had no powers to scrutinise independently the various proposals from the financial point of view and felt that the matter needed urgent consideration in order that the Financial Adviser functioned efficiently and without any fear. Government should re-examine the methods and organisation of the Director-General, India Stores Department, London with a view to defining in clear terms his duties and powers and his relationship with the High Commissioner and the Ministry of W.P. & S. in order to ensure that he functioned efficiently. The Committee reserved their judgment on the new contract but desired a monthly report of the progress of supply of the jeeps to be sent to them to enable them to assess the extent to which the previous loss had been made good in the 'new contract'. The Committee endorsed the audit observations. The committee's observations applied *mutatis mutandis* in the case of the second contract for the purchase of Defence Stores. The Committee found it amazing how the exact military requirements of the Government of India, which were of a confidential character became known to a private firm within eight days of their communication by the Ministry of Defence to the High Commissioner for India in London. An independent enquiry into the circumstances under which the information leaked out to a foreign private firm was considered desirable by the Committee.

After considering the recommendations of the Committee Government submitted a note on 18th December, 1954 for their review by explaining the circumstances in which deviations from the normal contracting arrangements became necessary and the use of inter-mediaries inescapable for the procurement of Defence stores urgently required for reasons of internal security and defence strategy. Simultaneously the Government also placed a copy of the note on the

Table of the House and the Finance Minister made a statement on the floor of the House on the 21st December, 1954, *inter alia*, requesting the House to treat the matter as closed without affording reasonable time to the Committee for considering the note. The committee felt that in accordance with well-established parliamentary practice elsewhere, the consideration stage by the House should arise only when the Committee made their final recommendation after reconsideration, as urged by Government. However, after analysing all the points raised in the note, the Committee maintained that on fact there was nothing to deviate from the conclusions already reached by it and observed that what further action was to be taken was essentially a matter for Executive determination. The para received wide media attention and criticism and caused considerable heat and uproar in the Parliament and the Prime Minister intervened on several occasions to explain the government's stand but there was no attack on the institution of CAG, although there was no defence either, which was to be expected. Until action was completed on the recommendations of the PAC by Government, the High Commissioner could not become a Minister in the Government of India.

ESTABLISHMENT OF A MACHINE TOOL-CUM-PROTOTYPE FACTORY

The para** brought out that the factory scheduled to go into full production by May, 1951 was opened for production only in January 1953 and analysed the performance of its three sections. No definite programme for development and manufacture of prototypes of arms and ammunition was laid down by Government for Prototype Section. Of the 14 items of arms and ammunition entrusted to the Section only in seven cases the work of development of indigenous designs had been completed. Of the remaining seven items, work on three items was discontinued after incurring an expenditure of Rs. 1.34 lakhs on one item and the other four items were under development. Rupees 8.03 lakhs was spent till the end of 1958-59 on development work. Of the contemplated manufacture of 1,152 units of eighteen types of machine tools and the design, development and prototype manufacture of seven other types of machine tools during the six years ending March, 1959 in the Machine Tool Section, manufacture of only 784 units of fourteen types of machine tools and manufacture of prototype of one type of machine tool had been completed by the end of March 1960. Production of one L type of machine tool and development of four other types taken up by this

* Para 17 of AR (Defence Services) 1961 signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 21st March, 1961 and presented on 30th March, 1961.

Section was subsequently abandoned after an expenditure of Rs. 3.26 lakhs had been incurred on them. The Artisan Training School started functioning in 1950, but due to defection of skilled artisans after completion of training, the factory was not able to have the full complement of trained personnel required. The defection of trained artisans was the main contributory cause for the delay in the production of machine tools. Due to non-utilisation of the full capacity of the factory, the expenditure of Rs. 86.76 lakhs incurred as "Preliminary Expenses" on the project and Rs. 23.52 lakhs towards "Development Charges" in the Machine Tool Section remained unabsorbed in the production costs upto the end of 1958-59. Taking into account the expenditure of Rs. 8.03 lakhs incurred on the development of arms and ammunition in the Prototype Section, the total expenditure on "Preliminary Expenses" and "Development Charges" which was not absorbed in production even after six years since the factory started functioning, worked out to Rs. 118.31 lakhs. The Director General, Ordnance Factories proposed to write off Rs. 45.18 lakhs out of the "Preliminary Expenses". Rs. 68.63 lakhs incurred as "Overheads" during 1953-54 to 1955-56 were excluded from the cost of production, which was a virtual loss in running the factory.

The cost of production of machine tools manufactured during the period 1953-54 to 1958-59 ranged from Rs. 6.00 lakhs to Rs. 21.40 lakhs without taking into account the "Preliminary Expenses" and expenditure on "Overheads" and a portion of the "Development Charges" and was considerably less than their true cost of production. The sale prices fixed by the Director General, Ordnance Factories in respect of the machine tools sold to civil indentors were even lower than the cost of production as exhibited in the accounts. Upto the end of 1958-59, even on the basis of this reduced cost of production, a loss of Rs. 8.13 lakhs was incurred in the sale of these machine tools. The total capital outlay on the establishment of the factory was Rs. 436.80 lakhs. Even after six years of commencement of production, the factory was not able to show any return on the capital invested. On the contrary, it had actually incurred a loss Rs. 77 lakhs approximately.

The Committee examined* the paras and observed that the financial results of the working of the Machine Tool-cum-Prototype Factory, Ambarnath were far from satisfactory. Even if it were conceded that machine tool production was a subsidiary function of the Factory (as urged by the D.G.O.F.) and some allowance was made for the fact that the Factory had to abandon production/development of a few types of

* 43rd Report (1961-62), Second Lok Sabha.

machine tools on the recommendation of the Machine Tool Committee, the performance of the Factory was disappointing. While the Committee noted that attempts were being made to utilise the capacity of this factory to the maximum extent, they deplored that the production in the Factory has continued to be uncertain ever since its inception. In their opinion, if the factory was to run as an economic unit, it was time Government took a firm decision regarding its precise role in the manufacture of machine tools required by the country and ensure that the factory worked upto that target. Without concerted efforts, the high overheads would tend to stifle production.

PURCHASE OF A DEFECTIVE DREDGER**

For carrying out dredging operations in a dock yard area, Government sanctioned in August 1956, the purchase of a new dredger from a foreign country at a cost of Rs. 35.51 lakhs and the dredger was received in India in September 1957. Although the trials conducted abroad were not satisfactory and modifications to the propeller design were required, the Naval Architects in London accepted the dredger after the builders had made some rectifications to the existing propellers instead of replacing them altogether. During the trials in Bombay in the month of its receipt, the dredger was found to have unacceptable vibrations and the Naval authorities did not consider the rectifications already made in the propellers as satisfactory. A set of newly designed propellers had, therefore, to be shipped to Bombay by the builders. But even before the receipt of these new propellers, the Director of Naval Construction, without any ostensible justification, communicated a provisional acceptance of the dredger to the builders in September 1957 itself. The new propellers were received and fitted to the dredger in December, 1957 and after trials on 9th and 10th December, 1957, the dredger was finally accepted by the Naval authorities on 10th December, 1957. In May 1958, *i.e.* within six months of the final acceptance of the dredger, it was found to have gone seriously out of order and had to undergo major repairs lasting till September 1959, which involved an expenditure of about Rs. 2 lakhs. But no claim as per guarantee clause could be pressed by the purchaser (the Director General, India Store Department) as the Director of Naval Construction had already issued a provisional certificate of acceptance of the dredger to the builders and accordingly the guarantee period had expired on 10th March, 1958. Apart from the fact that the contract did not require him to issue any such certificate,

** Para 25 of AR (Defence Services) 1961 signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 21st March, 1961 and presented on 30th March, 1961.

there was no provision in the contract for a provisional acceptance of the dredger. The contract only contemplated the final acceptance of the dredger by the Naval authorities and the guarantee clause should not have been deemed to be operative from any date earlier than the date of final acceptance of the dredger. The action of the Director of Naval Construction in communicating a provisional acceptance thus operated to the financial disadvantage of the Government. The Ministry of Defence, however, held that even if the guarantee period of six months had been counted from the date of final acceptance of the dredger, Government would have gained no financial advantage, as the breakdown did not occur due to faulty design, material or workmanship. The Board of Enquiry which was convened in June, 1958 to investigate into the case, made the observation that the conditions that led to the damages had perhaps existed ever since the ship was taken over by the Navy, that the ship had been accepted without a proper examination of its boilers by the Engineer Officer, and further that no examination had been carried out to ascertain the state of the ship's machinery and the boiler before the expiry of the guarantee period. The Board also found that there had been faulty maintenance leading to excessive accumulation of oil and hard carbon deposits. They did not, however, find it possible to blame anybody in particular, as in their opinion, many diverse factors, both administrative and technical, contributed to the collapse of the boiler, which rendered the vessel non-operational. But the fact remained that within six months of purchase, the dredger went out of order and an amount of about Rs. 2 lakhs had to be spent on its repairs. If this was not due to faulty design or workmanship, the extent of faulty maintenance was serious enough to justify a penalty greater than a mere communication of displeasure, which was all that was done.

DELAY IN DISPOSAL OF SURPLUS LANDS AND BUILDINGS*

153 buildings with a book value of about Rs. 6.27 lakhs were lying practically vacant since 1947 at Landour Cantonment, Mussoorie and the question of utilisation of the buildings was under consideration from 1948. A final decision to denotify thc Contonment was taken in January 1954 and thereafter efforts were made to transfer the buildings to other Ministries in May 1955, December 1955, August 1956 and January 1957. As a result, two barracks were occupied by the National Physical Laboratory in 1957. A proposal to dispose of the buildings by public auction was also considered in 1957. Early in 1958, the Air Force

* Para 18 of AR (Defence Services) 1962 signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 11th April, 1962 and presented on 3rd May, 1962.

authorities considered the buildings sufficient and suitable for establishing a training school and it was, therefore, decided in May 1958 not to dispose of the buildings. This proposal, however, did not materialise. In June 1959 part of the accommodation was placed at the disposal of the Research and Development Organisation and subsequently it was proposed to place the entire accommodation at the disposal of that organisation. Rs. 3 lakhs were spent upto March 1961 on the maintenance of buildings and watch and ward staff.

Of the two camps at Avadi, which fell vacant in December 1954, some sheds were transferred to the State Government and private parties in 1956 and 1957. The disposal of the remaining assets and the clearance of the sites was completed by December 1958 in one case and by December 1959 in the other. During this period Rs. 2.10 lakhs had been spent on watch and ward, besides Rs. 0.95 lakh on rent of land. The land for which a recurring rent of Rs. 0.18 lakh per annum was being paid was not released to the owners till December 1961. On another camp at Avadi lying vacant since February 1953 (estimated cost Rs. 0.03 lakh only against the book value of Rs. 0.69 lakh) the total expenditure already incurred upto end of March 1961 on watch and ward was about Rs. 0.29 lakh. An airfield at Arkonam and the buildings thereon became surplus to Defence requirements in 1949. Some of the surplus buildings were disposed of only in 1951 and the remaining handed over to the Territorial Army. The latter buildings were vacated by the Territorial Army in February 1953. Since then, they were lying vacant and were not disposed of till June 1961, though they were in a dilapidated condition in 1951 itself. Upto the end of March 1961, Rs. 1.68 lakhs had been spent on watch and ward of the vacant buildings, besides a sum of Rs. 0.12 lakh approximately paid as compensation for the hired land. A camp standing on private land at Gummidipundi in Madras, which fell vacant in June 1959, was not disposed of till December 1961. Upto the end of March 1961, an expenditure of about Rs. 0.62 lakh was incurred as rent of land.

Certain barracks (assessed value Rs. 2.57 lakhs) which had been taken over from the former Datia State in 1951 remained undisposed of although they were unfit for the use of Indian Army and were in a dilapidated condition even then. A recommendation made by the Garrison Engineer in May 1952 that these buildings should be disposed of as these were uneconomical to repair and maintain, was not accepted, as it was then expected that they could be utilised. In 1954, however, the buildings were offered to the then Vindhya Pradesh Government, but the transaction did not materialise. Rs. 27,250 was spent on watch and ward upto 31st December, 1960 and there was a recurring liability of about Rs.

2,000 per annum on this account. The assessed value of the buildings dropped to about Rs. 23,000.

The PAC observed* that due attention was not paid to the utilisation/disposal of these buildings resulting in considrable expenditure on maintenance and watch and ward staff besides unnecessary locking up of funds and desired that steps should be taken for utilisation/disposal of surplus buildings. The Committee felt that the expenditure incurred on the watch and ward was excessive and suggested that the prescribed scale should be carefully examined to make possible economies.

AUDIT REPORT** 1962

Report contained 32 paras. The comments were : under Ministry of Defence - arrears in the linking of invoices with packing accounts (Rs. 18.53 crores), unnecessary insurance of Government property involving avoidable expenditure (Rs. 1.25 lakhs); under Army - infructuous expenditure in the manufacture of an equipment (Rs. 1.27 lakhs), unnecessary expenditure on pay and allowances (Rs. 0.37 lakh), delay in disposal of surplus machines (Rs. 2 crores), overprovisioning of stores (Rs. 185 lakhs) and ammunition (Rs. 17.84 lakhs), non-provision of suitable accommodation leading to downgradation of ammunition (Rs. 33.96 lakhs), non-utilisation of cranes purchased (cost Rs. 10.52 lakhs), delay in cancellation of orders resulting in avoidable expenditure (Rs. 1.47 lakhs), delay in disposal of surplus lands and buildings, delay in de-hiring of land, tractors lying idle for want of spares, heavy breakage of imported wired glass sheets, purchase of soft wood ballies and defective operation of contracts; under DGOF - uneconomical manufacture of stores for civil trade, photo enlarger, cinema projectors, espresso coffee machines, delay in the manufacture of a gun resulting in unfruitful expenditre of Rs. 4.56 lakhs, delay in manufacture of a store by an Ordnance Factory resulting in an avoidable expenditure (Rs. 1.16 lakhs), unnecessary purchase of vehicles, under Navy - purchase of stores involving an extra expenditure (Rs. 3.26 lakhs) and under Air Force - outstandings against Hindustan Aircraft Ltd. Presumably, the comments on Director General, Ordnance Factories in regard to the three items manufactured in the Ordnance Factories without regular sanction and survey etc. which was rumoured to have been done at the instance of the Defence Minister himself, that provoked him to make certain observations on CAG's Reports in the Parliament.

* Fourth Report (1962-63) Third Lok Sabha.

** Signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 11th April, 1962 and presented on 3rd May, 1962.

UNECONOMICAL MANUFACTURE OF STORES OR CIVIL TRADE*

Comments on manuacture of photo enlarger, cinema projectors and espresso coffee machines intended for civil trade undertaken without carefully assessing the probable cost of production and marketability of the goods were made. The Ordnance Factory, Dehra dun was authorised to manufacture 25 units of photo enlarger at an estimated cost of Rs. 275 each in July 1953, which was subsequently increased to Rs. 350 but not even a single unit had been manufactured till September 1957, when the manufacture was suspended, after incurring an expenditure of Rs. 2 lakhs. The work was resumed in January 1958 and 14 photo enlargers were manufactured against earlier orders. 9 Photo enlargers were completed by December 1961 and the cost of production per unit was Rs. 2,745 and the retail sale price was fixed at Rs. 1,100 per enlargers, as against the sale price of Rs. 450 per unit in December 1959. Only one photo enlarger was sold to a State Government for Rs. 885 in June 1958 and thereafter none had been sold upto October 1961. Even if all the 50 enlargers were sold out at Rs. 1,100 each, which was doubtful, there would be a loss of about 0.96 lakhs.

Ordnance Factory, Dehradun took up the manufacture of a prototype of 35 MM cinema projector on a high priority basis at the instance of the Ministry in May, 1955 without obtaining either any formal sanction or financial concurrence. A prototype of the projector was completed by June 1956 but the demonstrations carried out in 1957 showed that the amplifier developed in the factory was not quite upto the standard. It was also realised that the manufacture of the projectors would not have given much load to the factory and against the cost of an imported projector of Rs. 30,000, the cost of projector produced by the factory would be about Rs. 43,750. The Ministry decided in December 1957, the production of 35 MM projectors need not be undertaken by the factory. But in June 1959 the manufacture of a second prototype of this projector was taken up, which was completed in July 1961. The total expenditure incurred on the manufacture of the two prototypes was about Rs. 3 lakhs. Meanwhile, Government had already granted licenses to two firms for manufacture of cinema projectors.

During the year 1958-59, Rifle Factory, Ishapore manufactured 15 espresso coffee machines at a total cost of Rs. 53,764 without obtaining formal Government sanction or financial concurrence. In the absence of any demand from the trade, these machines could not be disposed of. One

* Para 24 AR (DS) 1962 signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 11th April, 1962 and presented on 3rd May, 1962.

of the machines was presented to the Chief Minister of a State and the remaining 14 were lying in stock till October 1961. The Ministry intimated in January 1962 that the question of fixation of sale price was in hand.

The Public Accounts Committee* observed/recommended that any additions or alterations in the list of civil trade items, which the Director General, Ordnance Factories was authorised to manufacture for stock purpose, should have prior approval of Government; reiterated the recommendations made in para 50 of their Forty-third Report (Second Lok Sabha) that the Defence production should not in anyway suffer because of the civil trade orders and the costing of articles produced for civil trade should be done strictly in accordance with sound commercial principles and suggested that before taking up production of civil trade items, a proper survey of the prices and marketability should invariably be made. Committee were unable to understand how the Director General, Ordnance Factories, had worked out an estimated cost of Rs. 275 per unit over a batch of 25 units in July 1953, when the concurrence of Government was accorded to take up the manufacture of the item and the estimated cost had no relation whatsoever to the actual cost subsequently worked out and regretted the delay of several years in establishing manufacture of the store. The progress made in the sale of existing completed units of photo enlargers giving profit or loss made was to be reported to them. The Committee were surprised to learn that such a project for the manufacture of cinema projectors involving considerable financial outlay was taken up without a formal sanction either by the Ministry or the Director General, Ordnance Factories and without proper financial concurrence and liked to know whether formal sanction had since been accorded, the reason for the delay and how many projectors were manufactured and sold and the realisation. The manufacture of Espresso Coffee Machines was another case, where prior sanction was not issued before taking up production, for which there was no justification, without ascertaining the real demand for them and liked to know whether a formal sanction for the manufacture of the machines was issued and whether responsibility was fixed for incurring this expenditure, which remained largely infructuous. The Committee were in general agreement with the policy of utilising the surplus capacity of Ordnance Factories in peace time for the production of civil trade items, in order to keep the skills and techniques alive, so long as by so doing the manufacture of service stores which was the first and foremost duty of the Ordnance Factories did not in any way suffer.

---

* Fourth Report 1962-63 (Third Lok Sabha) on the Accounts (Defence Services) 1960-61 and Audit Report 1962.

ECHO IN PARLIAMENT

During the course of discussion on Demands for Grants for the Defence Ministry on the 31st May, 1962, the Minister for Defence, Shri V.K. Krishna Menon, referred to the manner in which audit of the accounts of Defence Services* was conducted and Audit Report presented to Parliament, and suggested that the PAC may look into them. The Finance Minister, Shri T.T. Krishnamachari, clarified during the course of interpellation in Parliament on the 18th June, 1962 that the reports of the CAG were considered by the PAC, who could seek elucidation on any point from the CAG.

PAC'S VERDICT

The PAC under the Chairmanship of Shri Mahavir Tyagi, examined the three specific questions referred to it *viz*. (i) extent and scope of Audit by the Comptroller and Auditor General with particular reference to the administrative audit, (ii) the form and content of Audit Report on accounts of Government submitted by the CAG and (iii) need for Audit to make independent enquiries from private individuals or members of general public by Audit while auditing the accounts of the Government, with reference to the constitutional and legal provisions as also the practice obtaining in other democratic countries like U.K. and U.S.A. and concluded as under.

The Committee defined the administrative audit as an examination of the technical and organisational processes of the administrative apparatus with a view to see how far the apparatus was working with maximum efficiency and what technical and organisational changes were required for obtaining optimum results, which, of necessity, must be the primary responsibility of the administrative departments, which must have a built-in organisation in the departments themselves. In fact the Committee had recommended earlier, while examining the accounts of 1947-48 (post-partition) in 1951 its introduction in all the large spending departments, which was also reiterated in subsequent years. Such an audit did not come within the purview of the CAG but when a particular course of administrative action had resulted in waste, extravagance or improper expenditure, it was certainly the duty of the Audit to call specific attention to matters of that kind and to bring facts to the notice of Parliament......But where administrative action had serious financial implications, it was the duty of Audit to see that administrative action was not only in conformity with prescribed law, financial rules and procedure but it was also proper and did not result in any extravagance, loss or infructuous expenditure.

The Committee examined the position prevailing in the United Kingdom and found that the practice was similar to what was obtaining in our country. In the United Kingdom "with the approval of the Treasury and the Public Accounts Committee, and often at their instigation, the Auditor General is wont to push his inquiries further than the letter of the statute warrants, and to inquire also into any payments which on the face of the documents submitted to him to be imprudent and wasteful..... As distinguished from his appropriation audit, this may be called his administrative audit. If in the course of his examination he becomes aware of facts which indicate improper expenditure, or loss of public money, or waste of it, he is not debarred from calling to them the attention of the Treasury and the Committee by the fact that there is nothing irregular in them according to the scheme of appropriation. It is even his duty to do so.........In contrast with appropriation part of the Auditor General's work, necessary no doubt but technical, this administrative part is of the highest practical value as a remedy for the epidemic complaint of financial administration in these days of vast expenditure, neglect of rigid economy in details"*. This extension of audit "arose out of the normal scrutiny of accounts, for losses, frauds, unusual charges and outstanding claims all appeared on the face of the accounts, had to have Treasury sanction and needed explaining. Inquiries of this nature led to investigation of the circumstances under which such irregularities occurred and, thus, directly to a consideration of machinery and means, departmental methods and action.......... Thus, by a natural growth of their functions, the PAC and the CAG were being led to a wider investigation of departmental action and to questions of economy and efficiency"**.

In regard to the form and content of the Audit Report, the Committee considered that as an instrument of Parliamentary Control over financial transactions of Government, it was essential that Audit Reports must be independent and objective, and the Constitution had taken special care to ensure that the Comptroller and Auditor General performed his duties "without fear or favour, affection or ill will". If the Audit Reports were to be of any value to Parliament, it was essential that the matters to be included and the comments to be made therein were left to the sole discretion of the CAG. The Committee found that in United Kingdom and U.S.A. the position was substantially the same as in India.

"The Committee are therefore, definitely of the view that it is the function of the CAG to satisfy himself not only that evey expenditure has

* Hilton Young - The System of National Finance.

** Basil Chubb - The control of Public Expenditure.

been incurred as per-prescribed rules, regulations and laws, but also that it has been incurred with 'faithfulness, wisdom and economy'. If, in the course of his audit, the Comptroller and Auditor General becomes aware of facts, which appear to him to indicate an improper expenditure or waste of public money, it is his duty to call the attention of Parliament to them, through his Audit Reports. At the present time when there is heavy taxation and heavy expenditure, the Committee hope that Comptroller and Auditor General will pay even greater attention than in the past to this aspect of his duties and that Government will give him every facility to perform them."

In regard to independent enquiries from private individuals or members of the general public, the Committee drew attention to the statement made by the then CAG of India Shri V. Narahari Rao at the meeting of the Public Accounts Cmmittee held on 22nd May, 1951 regarding the procedures followed in the preparation and submission of Audit Reports to Parliament, which was reproduced as Appendix 1 to its report, and is explained in the relevant Chapter. The Committee were assured by the then CAG that the procedure outlined therein continued to be followed and there was no change and the matters reported in the AR under examination were based on facts obtained through official channels. The Committee observed that the witnesses from the Defence Ministry were not able to quote any instance, where audit comments in the Reports had been based on information from sources other than Accounts, official records and documents.

The Committee referred to the healthy convention built up in the country regarding the accessibility of documents and records relating to any financial transaction of the Government to the CAG to enable him to properly discharge his constitutional functions and cited the practice obtaining in U.K. and U.S.A. The Committee urged the Government to expedite the legislation under Article 149 of the Constitution defining the duties and powers of the CAG and hoped that, as in the United Kingdom, when the PAC was consulted, while the Exchequer and Audit Department Bill 1866 and the Amendment Bill 1921 were under consideration of Government, the Committee would be asked to consider the proposed legislation at the appropriate stage.

'Much ado about nothing' raised by the Defence Minister was laid to rest by the PAC by its learned pronouncement but it helped to establish CAG's discretion to decide the form, content and presentation of the ARs, which were often questioned by some of the politicians later and bureaucrats, when they were driven to the corner by the audit comments based on inexhorable facts.

INADEQUACY OF PLANNING AND CO-ORDINATION IN MANUFACTURE OF A TRANSPORT AIRCRAFT*

The para brought out that in July 1959 an agreement was concluded with a foreign company for the indigenous manufacture of a transport aircraft. In August, 1959, Government sanctioned the purchase of plant, machinery, tools, jigs, etc. at an estimated cost of Rs. 131 lakhs. Further expenditure of Rs. 940 lakhs was sanctioned during June 1960 to September 1963 in this connection. Plant and machinery worth about Rs. 36 lakhs received during the period 1960 to 1963 were not installed till September 1963 as the buildings were not ready. The construction of workshops and other buildings, which was sanctioned only in June, 1961, was further delayed in execution and only the workshop buildings could be completed by the end of August 1963. But it was reported in September 1963 that serious defects in construction had been noticed in these buildings and needed rectification. Further, in July 1963, it was reported by the engineering authorities that work on foundations for machinery had still to be taken up with the exception of one for a press. Out of the 19 engines of the value of about Rs. 57 lakhs, supplied by another company from December, 1961 to December 1963, two have been fitted in an aircraft which was still to be flown and the remaining 17 were lying in storage owing to the delay in starting the manufacture. The facts seemed to indicate that there was not adequate planning and coordination in the execution of the project. In November 1962 Government issued orders that the maintenance of cost accounts of this project should be transferred to the Defence Accounts Department with effect from the 1st December, 1962. But the Air Force authorities, however, started handing over the work of maintenance of cost accounts to the Defence Accounts Department only from the 1st August, 1963. The handing over was not completed even in 1963. Non-reconciliation of financial and cost accounts, non-production of final accounts such as Manufacturing Account, Stock Accounts for the three years ending 1962-63, incorrect allocation of labour and materials against the various jobs, non-inclusion in the cost accounts of the expenditure incurred by another depot, non-maintenance of proper records to watch the progress of expenditure against Government sanctions and non-preparation of estimates of direct labour and direct material costs and lack of any system for control of over-heads were some of the irregularities in the accounts maintained by the Air Force authorites pointed out by the Controller General of Defence Accounts.

* Para 12 of AR (DS) 1964 signed by Shri P.D. Seth and countersigned by Shri A.K. Roy on 14th February, 1964 and presented on 10th March, 1964.

The PAC noted* with deep regret the plea of "lack of sufficient experience and knowledge" for heavy shortfall in production and were not convinced by the arguments offered for not consulting the collaborators at the time of drawing up the first and the revised production schedule and found no justification for the failure of the officers in charge of the project to avail themselves of the expertise of the foreign collaborators and commented adversely on the decision of leaving to an individual for drawing up production schedule for a new and important project. Inadequate training given to the officers on the part of the Ministry to keep themselves informed of the proper and full utilisation of the facilities for training in different directions under the Agreement, and with drawal of the training personnel while the project was still in its infancy were commented upon. The Ministry should consider the utility of the foreign specialists maintained or extended for a period of nearly 4 years when they were only assembling the parts imported as assemblies/sub-assemblies. While economy and foreign exchange were important considerations even in defence requirement, the same cannot supersede more vital considerations *viz.*, opeational efficiency and urgency of IAF requirements. Suitability of Caribou Mk II to meet the IAF requirements needed to be processed simultaneously, so that in the event of Avro 748 MF being found suitable, no time would be lost in exploring an alternative aircraft. Late supply of components was one of the factors, which also delayed production programme and the Committee liked to be informed about the action, if any, taken to realise liquidated damages from the collaborators. The Committee regretted to note that no detailed and concrete plan was chalked out for progressive increase of indigenous contents in the aircraft. Since all the components were imported and only assembled here in India, how the labour and over heads etc. for second Air craft came to about Rs. 30 lakhs, which was exorbitant, was not clear and needed examiantion. It was premature to accept the contention of the Ministry that the cost of manufacture of Avro was not unreasonable, till the firm orders for at least 44 aircraft were received, and detailed cost worked out. The Committee felt that to this extent, the agreement was defective and as a result of the package agreement with the collaborators, the reduction in licence fee secured by Government was not adequate compensation for the disadvantages suffered. Difference of opinion between the collaborators and Government about the interpretation of the agreement due to ambiguities in the agreement needed to be avoided. Delay in issuing expenditure sanction for the workshop and other civil works, defects in

* Thirty seventh Report (Third Lok Sabha) 1964-65.

the execution of civil works, large scale defection of trained staff and omission to ask for the extention of warranty period before its expiry because of the shortfall in production schedule should be avoided in future. The Committee desired to be informed about the results achieved by the special committee appointed to settle the outstanding audit objections and the action taken with regard to the serious lapses. The delegation of authority to the Company would not be only in theory, but also in actual practice and that its performance would be judged only on the basis of results produced. The action taken on the report of the Executive Director on the work of Kanpur Factory was to be reported to them. The Project for manufacturing transport aircraft conceived as a high priority project and national importance was badly planned and inefficiently executed resulting in a crop of failures and delays in achieving the objective due to various unsatisfactory features pointed by the Committee and the chequered history of this project should serve as an object lesson to the Government. A policy decision to set up such an important project involving huge financial outlay and deployment of technical personnel of which there was continued shortage in the country, should be taken only after a very careful and complete assessment of the various problems involved.

IRREGULARITIES IN THE CONCLUSION AND OPERATION OF A CONTRACT*

In January, 1961, Government sanctioned a modernisation scheme in an Ordnance factory at the maximum estimated cost of Rs. 3.46 crores, increased to Rs. 3.76 crores in September, 1962. The administrative approval for the civil works required for this project was accorded in April 1962 at an estimated cost of Rs. 70.45 lakhs - increased to Rs. 86.23 lakhs in September 1962 - stipulating the period of completion as three years. On the basis of limited tender enquiries, a contract for construction of civil works at a cost of Rs. 57.76 lakhs was concluded on 18 January, 1963 with a firm whose quotation worked out to be the lowest on the basis of the estimated quantum of work shown in the tender. The work was divided into five groups for facility of execution and under the terms of the contract the entire work was to be completed in fifteen months from the date of handing over the site for Group I. Certain features noticed in connection with the conclusion and execution of contract were commented upon.

(i) Before inviting tenders, the designs of the work were not finalised by

* Para 27 of AR (DS) 1966 signed by Shri P.K. Rau and countersigned by Shri A.K. Roy on 5th March, 1966 and presented on 28th March, 1966.

the department but certain approximate quantities of the work involved were indicated and the tenderers were asked to give their quotations on the basis of their own designs. No attempt was made to find out before the actual conclusion of the contract, whether the approximate quantities of work indicated in the tender form needed any revision, on the basis of the designs to be adopted by the different tenderers, to find out which tender was really the lowest, on the basis of the rates and the quantum of steel involved. The lowest quotation was decided upon on the basis of the approximate quantities of work indicated in the tender. (ii) The steel work indicated in the contract was for a quantity of 1,100 tons but in the actual execution of the work the quantity involved was 2,200 tons indicating either a gross underestimate on the part of the department or adoption of an uneconomical design on the part of the contractor who designed these structures. (iii) The piling work provided in the contract was for 36,300 cft. (363 piles). The rate for each pile as per contract was Rs. 2,102. The contractor, however, entrusted the work to a sub-contractor, whose rates were Rs. 985 per pile for the first 300 numbers and Rs. 910 for each additional pile. The department knew about the lower rates of this sub-contractor but no attempt was made to enter into a separate contract with this sub-contractor for this portion of the work. On the basis of the sub-contractor's rate plus 10 per cent to cover overheads, etc. the extra expenditure involved on 544 piles - the maximum possible as per contract - was Rs. 5.73 lakhs. During the operation of the contract, the piling work was increased to 91,047 cft or 910 piles. However, before ordering the increased quantity of work no action was taken to negotiate a reduced rate at least for the additional 366 piles ordered, over and above the maximum number of 544 covered by the contract. On the basis of the rates charged by the sub-contractor plus 10 per cent to cover overheads and profit of the main contractor, the extra expenditure involved in respect of these 366 piles worked out to Rs. 4.03 lakhs approximately. (iv) The contract provided for welded structures of steel but in the execution of the work the contractor adopted rivetted structures without any adjustment in rates. The Chief Technical Examiner observed that a rivetted structure consumed 10 to 15 per cent extra steel. On the basis of an average 12 and a half per cent increase, the extra expenditure on steel owing to this changeover was estimated to be Rs. 3.91 lakhs. It was also understood that the rate for fabrication of welded connections was nearly 50 per cent more than that for rivetted connections. The benefit that accrued to the contractor on this accounts was not assessed. (v) The work which was due to be completed by July 1964 was not completed even upto October 1965. The contractor attributed this delay to enormous increase in the quantum of work after conclusion of the contract and delay in handing over sites. As a consequence, the progress of erection of plant and machinery for this project was delayed. Adverse comments on these points were given by the Chief Technical Examiner in his report for the half year ended 30 June, 1965. The Ministry intimated in February 1966 that a Board of Officers was ordered by the Chief Engineer to look into the matter and that on receipt of their findings the Ministry would be in a position to offer their remarks.

The Committee expressed* unhappiness regarding the manner in which the contract was finalised and were unable to understand as to how the Department came to the conclusion that the accepted tender was the most economical, in the absence of the assessment of correct quantities in respect of the designs given by the different tenderers. As regards the high rate of Rs. 2012 paid for each pile, Committee was disappointed to learn that the same firm entrusted this work to a sub-contractor at Rs. 985 per pile for the first 300 numbers and Rs. 910 for each additional pile and felt that the department should have ascertained the rates from other sources to arrive at more reasonable terms with the contractor. Non-observance of the prescribed procedure for executing works over and above the specified deviation limit of 50 per cent was commented upon, with a suggestion to conduct a thorough investigation into the matter. The Committee felt that the most unsatisfactory feature of the whole case was making running payments to the firm at the old rates, though they had been found very high by the Department. The Committee desired to be informed of the action taken against the persons found responsible for the deal and the manner of settlement of the claim of Rs. 5.19 lakhs.

INCORRECT ASSESSMENT OF REQUIREMENT OF AIRCRAFT SPARES**

Due to difficulties anticipated in importing a spare part of certain aircraft from time to time, manufacture of the life-of-type requirement indigenously was decided. In November 1963, the Air Headquarters assessed the life-of-type requirement at 4378 numbers. The Department of Defence Production entered into the necessary licence agreements with foreign manufacturers in May 1964 for manufacture of this quantity. While the Department of Defence Production were negotiating licence agreements with the foreign manufacturers, the Air Headquarters re-examined their

* Seventy First Report 1966-67 Third Lok Sabha.

** Para 11 of AR (DS) 1967 signed by Shri K.T. Mirchandani and countersigned by Shri S. Ranganathan on 27th June, 1967 and presented on 25th July, 1967.

requipment plan and in July, 1964 it was finally decided that the aircraft should be phased out of service earlier than previously envisaged, which reduced the life-of-type requirement of the part. Further examination disclosed that the requirement would be still less due mainly to persistent shortfall in the flying effort, wastage being less than that envisaged in the manufacturer's recommendations and certain repairable stocks, which had not been fully taken into account, while working out the life-of-type requirement. In December, 1964, the Air Headquarters worked out the revised life-of-type requirement of the part at only 328. This quantity being very small, it was considered uneconomical to manufacture the part in India. The licence agreements were, therefore, foreclosed in January, 1965, on payment of Rs. 1.52 lakhs (post devaluation) to licensee firm as compensation. On the basis of an indent received from Air Headquarters, India Supply Mission, London, entered into a contract in December, 1963, for supply of 134 numbers of a spare part of a certain type of aircraft, which was worked out by an Air Force depot in January, 1963, on the basis of cent per cent replacement, although the repair agency (Hindustan Aeronautics Ltd.) had assessed in July, 1961 the requirement, in consultation with the manufacturers of the aircraft, at only 12 per cent and till December, 1962, not a part was replaced in any of the 19 aircraft repaired. The Air Headquarters also failed to make a technical verification of the requirements before placing the indent in March, 1963. Incidentally, the estimated unit cost indicated in the indent was Rs. 150 as against Rs. 4883 at which the contract was eventually placed. It was only in September, 1964, that the Air Headquarters noticed that the Hindustan Aeronautics, Ltd., had not found it necessary to replace the part in any of the aircraft repaired. On being consulted, Hindustan Aeronautics, Ltd., advised in October 1964, that their revised recommendations were 20 for 100 aircraft to be repaired; in April, 1965, they cut down the requirement further to 6 numbers only, as they had "not come across any rejection" of the part in the aircraft "so repaired". It was finally decided to obtain only 6 numbers to meet the life-of-type requirements; accordingly, in May, 1965, the Air Headquarters requested the India Supply Mission to cancel the order for the remaining 128. The manufacturers agreed to the cancellation, but on payment of a compensation of Rs. 1 lakh as the production was in an advanced stage. In November, 1966, after Audit had drawn the attention of Government to the matter, the Air Headquarters set up a Court of Inquiry. The Court of Inquiry found that an officer and an airman in the depot, which submitted the indent had not exercised due care in working out the requirements. The officer was conveyed the severe displeasure of the Chief of Air Staff and the airman had already left service.

LOSSES IN AIR DROPPING SUPPLIES FOR TROOPS IN ISOLATED POSTS*

Certain isolated posts on Northern Border were supplied (solely or partly) food articles by air. While most articles which were sacked or baled were free dropped, *i.e.*, without the aid of a parachute boxes and tinned articles were generally parachuted down. The supplies were dropped in specified dropping zones. Some of the supplies dropped by air did not reach the consignees due to mis-dropping, non-opening of parachutes, damage to containers, etc. Government had not laid down the permissible percentage of such losses. A test check of losses in air-drops made in April—May, 1965, in one Sector 'A', and whole of 1965-66 in another Sector 'B', disclosed that taking both the sectors together, about three fifth of the stores accounted for in weight were free and the remaining two fifth para dropped; all the stores accounted for in number, or unit of capacity, were dropped by parachute. While the losses in free drop were higher in Sector 'B', the losses in para drop were generally higher in Sector, 'A'. Analysing the losses commodity-wise, it was observed that there was a wide variation in the extent of loss in comparable commodities in the same sector and same commodity in different sectors. The losses in respect of dal, sugar, gram and rice in both sectors, and tea and atta in Sector 'B' among free dropped commodities and Oil Hydro tinned, and fresh fruits in both sectors, vegetables and multi-vitamin tablets in Sector 'A', and matches, rum and petrol in Sector 'B', out of the commodities para dropped, were much higher than the overall average.

SHAKTIMAN TRUCKS**

The PAC had expressed earlier their concern over the production of trucks lagging behind the planned targets and desired that every effort should be made to adhere to the revised programme drawn up by the government in May, 1963. The review brought out actual production from July, 1963 to June, 1967, along with the revised target, as in the table below.

There was a shortfall in production as well as in the indigenous content of the trucks. Taking the year July, 1966 - June, 1967, the target for savings in foreign exchange was Rs. 4.23 crores on the manufacture of 1,500 vehicles. The actual savings were, however, only Rs. 1.95 crores. Of the shortfall of Rs. 2.28 crores in savings of foreign exchange, Rs. 2.00

* Para 28 of AR (DS), 1967 signed by Shri K.T. Mirchandani and countersigned by Shri S. Ranganathan on 27th June, 1967.

** Para 4 of AR (DS) 1968 signed by Shri P.Krishnamurthi and countersigned by Shri S. Ranganathan on 19th April, 1968.

Year	Production		Percentage of indigenous content	
	Target	Actual	Target	Actual (Average)
5th Year (1-7-63 to 30-6-64)	1,200	1,022	625	9.9
6th year (1-7-64 to 30-6-65)	1,500	1,128	72	64.7
7th year (1-7-65 to 30-6-66)	1,500	1,407	76.5	66.3
8th year (1-7-66 to 30-6-67)	1,500	939	77	67.5

crores were due to the shortfall of 561 trucks in the total production and Rs. 0.28 crore were due to less indigenous content achieved in each truck. The shortfall in the indigenous content was mainly due to delay in establishment/commencement of the indigenous production of certain major components. The Ministry stated that in the case of the Gear Box, manufacture had commenced from July, 1964, but that indigenous production could not meet the full requirements and, to the extent of shorfall, imports were unavoidable. The establishment of indigenous production of the Universal Joint was delayed for a year - May, 1963, to May, 1964 - pending decision on a change in wheel design and thereafter difficulties in procurement of tools, gauges and fixtures at reasonable prices from aborad delayed the project further and manufacture has commenced from December, 1967. As regards the Crank Case (of Axle Assembly) and Cylinder Head (of Engine Assembly) the Ministry stated that the plant was set up in December, 1965, but that there was delay on the part of the collaborators in supplying the fixtures. These were expected to be delivered by May, 1968. The firm on whom orders for castings were placed in August, 1964, were yet to make any supplies. The Ministry further stated that the unutilised capacity in the production of Shaktiman trucks was utilised for manufacture of Nissan vehicles, the production of which was much above the target.

The Committee* was not at all happy about the development of Shaktiman Trucks and the shortfall in realisation of annual targets and emphasised the necessity for strict and continuous watch by the Department over the quality of indigenous components and quick and timely action to rectify the shortcomings noticed in them. The Committee observed that the pace of indigenous production

* Para 2.38 of Sixty-ninth report (1968-69) Fourth L.S.

of components was very slow, which caused further import and desired Government to examine as to how to speed up import substitution consistent with the requisite quality. The delay in establishment of indigenous production in Ordnance Factories of some major components of the trucks was commented upon and desired the Department of Defence Production to ensure that indigenous production was speedily established and that rigorus quality control was maintained so that the parts indigenously produced could be used in the trucks. The need to keep the cost of the Shaktiman truck under control at every stage of production was stressed. The Government should look into the economics of the proposed full-fledged unit in the State sector for manufacture of Shaktiman trucks and Nissan trucks in view of the limited demand of Army, constraints to complete with private sector because of high cost and low output, limitations on export potential under the collaboration agreement, and their profitability.

SLOW PROGRESS IN MANUFACTURE OF A WEAPON AND RELATED AMMUNITION**

The project was sanctioned by Government in April, 1959 for Rs. 347 lakhs and in September, 1962 an additional Rs. 108 lakhs for expansion of facilities for progressive indigenous manufacture of this weapon and ammunition was sanctioned. The total number of weapons programmed to be manufactured in three phases was 184 units - 60 in phase I ordered in September, 1959, 42 in phase II ordered in May, 1961 and the balance 82 in Phase III ordered in March, 1964. Initial plan to manufacture six units per month in two ten hour shifts after establishment of production was scaled down in April, 1964 to four units per month. Production commenced in August, 1960, but there was a steady shortfall in actual production, the average monthly production being less than one. The first phase target of 60 units to be completed by April, 1962 (*i.e.* within three years of the date of signing the agreement with the foreign collaborator in April, 1959) was revised to October 1964, but manufacture was completed only in August, 1967. Of the subsequent phase II and III for manufacturing 124 units, only seven were completed till September, 1968. The Ministry attributed shortfall in production to delay in receipt of drawings, manufacturing schedules and tool drawings from collaborators till July, 1959 to August, 1960, delay in delivery of imported toolings till October 1961, delay in supply of steel sheets and

** Para 3 of AR (DS) 1969 signed by Shri P. Krishnamurthy and countersigned by Shri S. Ranganathan on 18th March, 1969 and presented on 31st March, 1969.

plates till December, 1961, time taken to rectify a defective part supplied by the collaborator and unexpected difficulties in machining complicated parts. In order to avoid further set-back, indent for all sub-assemblies required for production of the remaining weapons was placed on the collaborator. To augment the production of the weapon to eight units per month (in two ten-hour shifts per day) Government also sanctioned in November, 1965, Rs. 348 lakhs for setting up of additional facilities. Production was expected to increase to that level in 10 months after receipt of all machines by November, 1967. Out of 159 machines to be installed for this augmentation, only 112 were received upto April, 1968. Production of four units per month was expected to be achieved in 1969-70, which was to be increased to eight per month from April, 1970. Due to the slow progress in manufacture of the weapon and also in view of the urgent need to equip the Defence units with the improved version of the weapon, Government sanctioned in March, 1967 import of the weapon from a foreign source at a cost of over Rs. 5 crores. Further, electronic equipment (Rs. 9.66 lakhs) purchased locally and other costly equipment (Rs. 70 lakhs) imported for being fitted to the weapon were also lying in stock since procurement between August, 1964 and June, 1967. The Ministry stated that a committee was set up in November, 1968 to study the reasons for the low output and submit recommendations for stepping up production and their report was awaited.

Production of the ammunition in Ordnance factories was planned at the rate of 10,000 rounds per month in one shift of 8 hours with progressive increase in the indigenous content. But the actual production achieved was only about 50 per cent. The shortfall was attributed by the Ministry to delay in receipt/erection of required machinery and set-back in production of fuzes indigenously. After October 1964, the ammunition was envisaged to be produced with indigenous fuze and imported propellant and that indigenous propellant was expected to be available for ammunition produced after March, 1967. Though production of fuze was established in October 1965, it failed at proof stage and therefore bulk production could not be undertaken. The manufacture of propellant was established early in 1966 but production was not sufficient to meet the requirements of this ammunition. Consequently, fuzes costing Rs. 93 lakhs and propellant costing Rs. 12 lakhs had to be ordered from abroad up to April, 1968.

The Committee* were unhappy about the progress of manufacture of the weapon and non-realisastion of any of the expectations. The substantial shortfall in production has compelled Government to resort to import of the weapon at a cost of over Rs. 5 crores and resutled in

* 190th Report (1969-70) Fourth Lok-Sabha.

accumulation of imported components and sub-assemblies valued at Rs. 1.14 crores, which can be used up only when production was stepped up. The target set for indigenisation of production of components has not been achieved and 43 per cent of the components continued to be imported. While the Committee were aware that the production of a complicated weapon of this nature would present difficulties due to lack of adequate industrial base, know-how etc., it appeared to them that the Defence authorities consistently over- simplified these difficulties and set fanciful targets for production at every stage, even after having become aware of the difficulties that arose. The Committee noted that Government were themselves exercised over the slow progress of the project and have set up a Departmental Committee to go into this question and the Committee would like its work to be expeditiously finished, and also to be apprised of their findings as well as the measures taken to correct the existing situation. The need to impress on the collaborators about the unsatisfactory progress in production and their share of the responsibility was stressed. For the future, Government should examine the safeguards to be built into collaboration agreements, so as to create a stake on the part of the collaborators in achieving contemplated production schedules. It was essential to step up production apart from other reasons, for ensuring that imported components worth Rs. 1.14 crores, now lying unused, was utilised before expiry of their shelf-life. In any programme for future production of this weapon, the Committee suggested that Government should keep in view its plans for development of missiles, that production was based on a proper appreciation of the role and scope for use of this weapon *vis-a-vis* others proposed to be developed.

The Committee noted the large quantity of fuzes for ammunition produced indigenously at a cost of Rs. 40,000 which turned out to be defective and the imports made in 1967 and in 1968 due to non-establishment of production satisfactorily and was concerned at the delay in identifying the cause for failure of the indigenous fuzes and suggested to pursue the matter with the collaborator who should be asked to rectify the fuzes at their cost and reimburse Government for the losses sustained. The Committee desired to be apprised of the steps taken to stabilise indigenous production at a satisfactory level, so that imports could be avoided.

MANUFACTURE OF A WEAPON*

In pursuance of a decision to introduce a new weapon developed

* Para 4 of AR (DS) 1970 signed by Shri P. Krishnamurthy and countersigned by Shri S. Ranganathan on 20th March, 1970 and presented on 1st April, 1970.

indigenously for use by the Army, Government sanctioned in December, 1963, Rs. 36.58 lakhs for procurement of plant and machinery required to produce 10 sets per month of two components (parts A and B) of the weapon in an Ordnance Factory in two shifts of 10 hours each. 60 machines required for the purpose were received between 1964 and 1966 and installed. The other components of the weapon were proposed to be manufactured in other Ordnance factories with existing facilities and the output of 10 weapons a month was to be achieved from January, 1967. Orders for 358 weapons had been placed by the services between September, 1961 and March, 1963 (in anticipation of manufacture). In the meantime, in June, 1964 development of an improved version of the weapon was undertaken and the new model was ready for production by the end of 1967. Out of the 358 weapons ordered earlier, 83 were to be of the original model, while the remaining 275 and a further requirement of 392 weapons projected between June, and November, 1966 were to be of the new model. As the production capacity of 10 weapons per month was considered inadequate to meet the increased requirement of the services, Government, in November, 1966 sanctioned at an estimated cost of Rs. 47.04 lakhs (revised to Rs. 51.54 lakhs), augmentation of production of Part A of the weapon from 10 to 25 numbers per month in two 10 hour shifts. The additional requirement of Part B of the weapon at the rate of 15 per month was to be met by supply from a public sector undertaking. It was anticipated that requirement of other components for producing 25 weapons per month would be met with the existing facilities in the Ordnance factories or with trade assistance. The increased output of 25 numbers of part A per month was expected to commence from January, 1968. Out of 42 machines required for this augmentation, 36 machines were received and excepting one, all were installed by April, 1968. Production of the original version of the weapon commenced in March, 1964 and 83 weapons were produced by 1968. Production of the improved version on a limited scale also commenced in 1966 (simultaneously along with its development), but upto October 1969, 176 weapons only were produced. The expectation that 15 numbers of part B would be availiable per month from the public sector undertaking did not also materialise; that undertaking produced only eight numbers of part B till December, 1969. The maximum rate of production attained was six to seven weapons per month, which fell short of even the original target of 10 weapons per month by more than 30 per cent. Production in 1969-70 was expected by the Director General, Ordnance Factories, to reach 100 weapons but even at this rate it would take another five years to complete manufacture of the remaining weapons. In the meantime, to meet urgent requirements for equipping Army units Government had to import 150 similar weaons (with connected ammunition to suit the slightly different imported version) during 1968 at a cost of Rs. 7.33 crores. The Ministry stated that the limiting factors in achievement of the production target of the weapon were springs and castings required for Part B and facilities in Ordnance factories for production of castings to improve the present supply were proposed to be created and the public sector undertaking was expected to maintain a firm supply of only three numbers of Part B per month.

While the Committee recognised* the initial difficulties in achieving indigenisation of armament production, they were convinced that there has been complete and almost reprehensible failure to ensure the degree of coordination that was essential for the efficient realisation of such a project and hoped that taking a lesson from these lapses, Government would take suitable steps to ensure that such projects are pushed through with the requisite vigour and imagination and in future integrated planning and an annual review of progress in the implementaiton of the projects at the Government levels would be carried out so that self-reliance could be achieved within the minimum possible time to save the foreign exchange on imports.

TRANSPORT AIRCRAFT**

An agreement concluded with a foreign company in July, 1959 for indigenous manufacture of a transport aircraft stipulated *inter alia* that the company would make available, within 12 months of the date of the agreement, a complete itemised price list of all the components bought out and proprietary items, of the (basic) aircraft, which it would supply at a cost not exceeding Rs. 15800 per air craft. The itemised price list was, however, received from the company in October 1964 for series I and in October 1965 for series II of the air craft. Meanwhile sanctions for purchase of basic parts of 16 air crafts at a total provisional cost of Rs. 2,048,217 were issued by Government between August, 1959 and June, 1964. It was further decided (in 1962) to have 5 of these aircraft modified to VVIP version and 10 to Executive version. No firm estimate of the likely cost of additional equipment required for this purpose could be given by the foreign company at that stage. However, on grounds of urgency and after obtaining only a rough indication from the company, sanctions were issued for the desired modifications at an additional cost of £454,065. The total amount payable to that company according to

* 82nd Report (1972-73) Fifth L.S.

** Para 5 of AR(DS) 1969-70, signed by Shri S.L. Bhalla and countersigned by Shri S. Ranganathan and presented on 31st March, 1971.

these sanctions was thus £2,502,282. The supplies were received in India between 1963 and 1965. The invoices followed in September, 1965 and January, 1966. As against the sanctioned amount of £2,502,282, the amount claimed by the company was £3,413,633. A complete verification of all the items and costs detailed in those invoices could not be made, principally because the accounts of the stores and the prices payable for them were found to have not been maintained properly. However, an analysis of the difference of £911,351 between the amounts billed by the foreign supplier and the amounts of relative Government sanctions indicated that (a) an amount of £85,393 was due to the supplier, when the prices of basic components were finalised with reference to the itemised price lists furnished by the supplier; (b) an amount of £281,881 billed by the company pertained to certain other items forming part of the basic aircraft, which had not been provided for in Government sanctions; (c) another amount of £173,644 billed by the company related to items of modifications/improvements omitted to be included in Government sanctions; and (d) yet another amount of £45,766 billed by the company was attributable to escalation in prices. Even after allowance for these factors, there was still a difference of £324,667 which could not be explained. On the matter being taken up with the foreign company, it offered in May, 1966 certain discounts, which were estimated by Government to amount to £412,573 for 28 aircraft, which it had already ordered by that time. Out of the discounts so offered, £90,000 represented rebates in the cost of modifications and the balance in that of the basic components. This offer was accepted by Government in July, 1966 because, as stated by Government, the total discount offered (for the 28 aircraft) exceeded the unexplained difference of £324,667 (for the 16 aircraft). Taking into account the orders placed for 13 additional aircraft subsequently, the total value of discount worked out to £512,400. Government explained that the company was not prepared to give any quotations for the modifications, the design and standards of which had not in fact been finalised at that stage; all that the company had indicated was a budgetary price; in those circumstances, there were only two options open, either the sanction could be issued on the basis of budgetary prices indicated by the company or Government could have waited till the design of the modified equipment was finalised and the company was in a position to quote. The latter alternative could not be accepted as for fulfilment of the programme approved by Government, placement of orders could not be deferred.

The original amounts provisionally sanctioned by Government and the amounts paid were as under :

Category	Amount initially sanctioned Government	Amount finally paid by Government*	Difference between columns (3) and (2)	Percentage which column (4) bears to column (2)
(1)	(2)	(3)	(4)	(5)
(a) Basic components, etc. for 16 aircraft	£ 20,48,217	£ 23,56,524	£ 3,08,307	15.05
(b) Modifications:				
(i) Additional and optional equipment for 16 aircraft	29,859	1,64,959	1,35,100	452.46
(ii) 3- crew layout for 15 aircraft	3,02,100	4,05,317	1,03,217	34.17
(iii) VVIP/Executive layout for 15 aircraft	1,22,106	3,40,110	2,18,004	178.54
Total (b)	4,54,065	9,10,386	4,56,321	
Grand Total (a+b)	25,02,282	32,66,910	7,64,628	

£281881, which was included by the company in its in voices for modifications was said to represent value of basic aircraft and therefore, stood added to the figures at (a) by deleting it from figures at (b).

The principal reason for ordering the equipment for modifications, without securing, in advance, firm estimate of the cost, was urgency of need. Actually, only 11 such aircraft (9 Executive type and 2 VVIP type) were delivered upto January, 1969 at the rate of two - three each year, while the remaining 4 such aircraft were still awaited (November, 1970) eventhough the components for these aircraft were lying in store since 1965. The Ministry stated that in addition, 14 aircraft were given by the factory to Indian Airlines to meet more urgent requirement. Of the total discount of £4,12,573 offered by the company and accepted by Government in 1966, £90,000 only were for the optional and additional equipment, 3-crew layout, and Executive/VVIP layout. Thus, the total amount paid for these three modifications was £9,10,386 as against £4,54,065 sanctioned by Government; the biggest increase in cost was on account of the Executive/VVIP layout. Per aircraft this expenditure was about £22,700 (after allowing for the rebate allowed and other factors), as against Government's estimate of £8140 per aircraft. The (all inclusive) estimated cost of each of the nine Executive type air craft (after modification) was Rs. 71 lakhs approximately. They were handed over to the Air Force authorities, one in 1964, three in 1965, two in 1966 and three in 1967. Originally they were 40 seater air craft. After conversion, each had 22 seats and a sofa set, and these aircraft were meant for journeys by senior officers, apart from Ministers. A sample study (for four months) of the use of the four Executive type aircraft based in Delhi disclosed that, on an average, each flight carried 5.4 passengers only, not more than one or two of whom were senior officers and others juniors. The average monthly flying hours of the Executive types (since they were delivered to the Air Force authorities and after excluding the periods spent on repairs) were as follows :

2 aircraft	Not more than 200 hours
1 aircraft	More than 20 hours but not more than 30 hours
4 aircraft	More than 30 hours but not more than 40 hours
2 aircraft	More than 40 hours but not more than 45 hours.

The Committee* regretted to notice the various lapses in the purchase of parts of 16 AVRO aircraft, of which 5 were to be modified to VVIP version and 10 to executive version between 1963 and 1965 and felt that it was hardly the way to process the purchase proposals involving crores of rupees in foreign exchange and were not satified with the perfunctory nature of the action taken against the persons responsible and desired that the case should be reviewed in all its apsects and comprehensive instructions issued besides taking appropriate disciplinary action against the officers concerned for the various lapses and failures including those of the Accounts Organisation. The Committee failed to understand the urgency in regard to the requiement of VVIP/Executive aircraft, which was alleged to be the main reason for ordering the equipments for modifications without securing in advance a firm estimate of cost, and if there was urgency, there was no need to increase the number from 10 to 15 at that time. Absence of proper assessment of the requirement should be looked into. The Committee noted the outstanding dues from persons who were not entitled to use the aircraft but to use them for official purposes during the years 1969-70 to 1971-72, including the Prime Minister for unofficial purposes, and desired the progress of the recoveries to be reported to them.

Unsatisfactory** execution of a project for modernisation of process of production of an item in a factory was examined by the PAC

* 82nd Report (1972-73) Fifth L.S.

** Para 11 of AR 1975-76, signed by Shri M.C. Sarin and countersigned by Shri A. Baksi.

who observed*$ that the project was ill-planned, not very well co-ordinated and lacked seriousness in preparing the original estimates for the project.

Delay$$ in establishing the production of Shaktiman & Nissan vehicles and subsequent shortfall in production necessitating extension of the original agreement with the foreign collaborators and consequent payment of Rs. 99.25 lakhs to the collaborators was examined$* by the PAC who commented upon inadequate anticipation and foresiget in planning, careless scrutiny of the Project Report and lack of systematic effort to evolve a uniform pattern of production and achieving the optimum monthly as well as an annual production.

Irregular* disposal of aluminium scrap involving loss of Rs. 16.10 lakhs was examined by PAC$ who commented on the gross negligence on the part of the Senior Officers in safeguarding the financial interest of the factory. Unsatisfactory performance$* in manufacture of certain types of explosives and non-implementation of the PAC's recommendations on a similar case observed earlier, unsatisfactory production resulting in outgo of foreign exchange of Rs. 15.12 crores in imports of the items and under-utilisation of production capacity in an Ordnance Factory etc. was examined by the PAC. The PAC observed** that the Ordnance Factory was a typical example of the Defence Production Unit continuing to function on the basis of outdated technology and with obsolete plant and equipment.

Defective manufacture of transmission assemblies and consequent expenditure of Rs. 13.79 lakhs in the repairs@ resulting in the imports of items valued Rs. 112.66 lakhs and loss of Rs. 8.51 lakhs due to rejection of another item etc. was examined by the PAC$$ who observed that the actual production of vehicles was much less than the original installed capacity and recommended to the Government to take necessary action to achieve the production target envisaged.

---

*$ 81st Report (6th L.S).

$$ Para 10 of AR 1976-77, signed by Shri S.M. Maitra and countersigned by Shri Gian Prakash.

$* 101st Report (6th L.S.) presented on 22nd December, 1978.

* Para 11 of AR 1978-79, signed by Shri S.M. Maitra and countersigned by Shri Gian Prakash.

$ 43rd Report (7th L.S.).

$* Para 11 of AR 1979-80, signed by Shri G.N. Pathak and countersigned by Shri Gian Prakash.

** 106th Report 7th L.S.

@ Para 19 of AR 1980-81, signed by Shri G.N. Pathak and countersigned by Shri Gian Prakash.

$$ 151st Report (7th L.S.).

Delay*$ in establishment of Production of 130 mm M-46 gun and its ammunition, which necessitated imports of components worth Rs. 601.51, lakhs non-utilisation of steel worth Rs. 1118.86 lakhs, escalation in cost due to delay in execution from Rs. 16.47 crores to Rs. 23.00 crores was examined by the Committee*@ who found delay in every stage and was not satisfied with the reasons given by the Ministry for the delay and deplored the delay on the part of the authorities in implementing a project of such vital importance to the defence forces.

Shortfall@* in production of Armoured fighting vehicles (Vijayanta Tank) and failure of the project despite heavy capital investment of Rs. 27.37 crores was examined@* by the PAC who was unhappy that Government thought it prudent to undertake production of an equipment whose performance was not put to test any where and was disappointed to find persistent failure of the factory in achieving the production targets.

Review@ of the inventories of Ordnance Factories brought out cases of excess holding of inventories. PAC* observed that the level of inventories in ordnance factories was quite high and measures suggested and instructions issued had not been followed strictly or had failed to produce effective results.

ESTABLISHMENT OF PRODUCTION FACILITIES FOR AN AMMUNITION

The review** brought out that the project conceived in 1965 was sanctioned in October, 1972 for commissioning by October, 1977, which was revised to August, 1978 and finally to June, 1984. The delay in establishment and commencement of bulk indigenous production of the ammunition and its components resulted in imports of its various components valued at Rs. 601.51 lakhs including Rs. 500 lakhs approximately for primer and propellant, which were not included in the scope of the project. Although a decision was taken (1969-70) for production of fuze in factory 'A', its production in small quantity could be expected only in the year 1980-81. Due to delay in commencement of bulk production of shell body in factory 'A', 2,024 tonnes of steel procured at the cost of Rs. 118.96 lakhs approximately were yet to be

*$ Para 9 of AR 1980-81.
*@ 156th Report (7th L.S.).
@* Para 8 of AR 1981-82.
@* 214 Report (7th L.S.).
@ Para 12 of AR 1981-82, signed by Shri G.N. Pathak and countersigned by Shri Gian Prakash.
* 214th Report (7th L.S.).
** Para 9 of AR 1980-81.

used (359 tonnes since March, 1977). The life of the gun, for which the ammunition was required, was assessed as 20 years or so in 1965; Even after 15 years of the life, regular production and supply of the indigenous ammunition to achieve self-sufficiency were not (November, 1981) in sight. In May, 1980, the ammunition was, therefore, ordered for import at a cost of Rs. 18.01 crores. The delay in commissioning of the project had also increased its cost from Rs. 16.47 crores (October, 1972) to Rs. 23.00 crores (October, 1980).

The PAC$ made 16 recommendations/observations. The delay on the part of authorities in implementing a project of such vital importance and the consequent extra cost to the Defence serivces was deplored. The reasons given by the Ministry for the delay were not accepted and desired that the matter be enquired into and the findings together with the action taken thereon intimated to the Committee within six months. The Committee also desired its observations to be brought to the notice of the Minister of Defence. While expressing their dismay at the failure of HMT, the Committee liked to be informed, as to how much liquidated damages were recovered as per contract. Delay of four years in commissioning of the annealing furnace was yet another instance of bad planning and execution. Non-creation of capacity for the production of brass blanks, required for the production of cartridge case, was another instance of mal-planning. The manufacture of full charge propellant was not established till then. There was complete lack of planning and care in the execution of the project, meant for attaining self-sufficiency in production of ammunition for this particular gun. Apart from escalation in the cost of the project to the tune of Rs. 6.53 crores, huge additional expenditure had to be incurred in foreign exchange by resorting to import of the ammunition to the tune of Rs. 21.50 crores and import of components worth Rs. 699.87 lakhs which could have been avoided had the project progressed as per schedule, which was a matter of serious concern. The Committee recommended, that the lapses in the execution of the project for establishment of production facilities for an ammunition, as highlighted in its report, should be brought to the notice of Cabinet, and remedial measures taken to avoid recurrence and liked to be apprised of the action taken in this regard within six months. 10 recommendations/observations* were accepted by Government; 2 were not pursued by the Committee after receipt of replies from Government; in respect of 4 recommendations/ observations, replies were not acceptable to the Committee, who reiterated their recommendations.

$ 159th Report (82-83) 7th L.S.
* 190th Report (83-84) 7th L.S.

DEVELOPMENT OF WEAPON SYSTEM$

The indigenisation project for development of weapon system 'A' sanctioned in February 1972 at a cost of Rs. 16 crores was continued till June, 1981, even though the Air Force had pointed out as early as October 1973 that they did not have any significant requirement for additional quantities of this system for its ground complex after 1980 and had also contracted for import of weapon system 'B' in November, 1973. Expenditure of Rs. 15.41 crores had been incurred (up to June, 1981), but production facilities had not been established. The project was allowed to linger on for over 9 years despite uncertainties regarding the requirements projected by the Air HQ from time to time. The objective of providing infrastructure for the development of weapon system 'B' was also not achieved as weapon system 'B' was also not developed/productionised. PAC made* 8 recommendations. Even after 10 years of research and development effort, the country had to import this weapon system as well as an improved system entailing heavy expenditure in foreign exchange. The Committee was surprised to note that in spite of the categorical assertion of the representative of the Air Force about the limited scope of utility of weapon System 'A', the Steering Committee decided to continue the project on the old system and incurred an expenditure of Rs. 1.97 crores. Had the switch-over from the development of Weapon System 'A' to Weapon System 'B' been made in 1973 itself when initially suggested by the Air Force, the need for six squadrons of Weapon System similar to type 'B' might have been met by the country's own production, resulting in saving of valuable foreign exchange. The detailed reasons for undertaking this extension programme, when according to the Air Headquarters, there was no utility of this Weapon System, were called for. It was imperative that the development of the Weapon Systems should keep pace with the technological advancements in other countries and all R & D efforts should be galvanised in this direction and the achievements made from this project should be fully and expeditiously utilised for the implementation of the contemplated integrated scheme for the production of Weapon System of latest and futuristic design in this very strategic and sophisticated field. 6 recommendations$$ were accepted by Government and 2 were not pursued by the Committee after replies were received.

$ Para of AR 1981-82.

* 207th Report (83-84) 7th L.S.

$$ 86th Report (86-87) 8th L.S.

IMPORT OF A TRAINER AIRCRAFT:*

The trainer aircraft 'L' was imported on the consideration that with the existing assets it would not be late to train 67 per cent more trainees (in the pipeline) but the number of trainees inducted/trained in the courses commencing during the period July, 1975 - January, 1977 fell short of the sanctioned strength by 20 to 47 per cent and utilisation of aircraft fell short by 32 to 47 per cent. There were engine bearing failures, which were claimed attributable to the supplier but the onus of responsibility of the supplier could not be established. Rs. 8 lakhs had to be paid to the supplier, in addition to incurring an expenditure of Rs. 57.23 lakhs on transportation and other expenses to and fro between India and country 'X'. The number of aircraft that could be sustained operationally since 1979 was about 50 per cent of the assets held due to its performance, poor product support and inadequate supply of lubricant 'O'. As the option clause in the contract of April, 1975 for the supply of armaments and ammunition was not exercised before the specified date and these stores were received 4 years later under a separate contract concluded in May, 1977 for this purpose, the same were not available for imparting training during the period 1975—1979. The PAC made$$ 15 recommendations. While expressing concern at the manner in which the Ministry of Defence decided to import trainer aircraft at a cost of more than 14 crores involving scarce foreign exchange, without fully utilising the indigenous capacity available, the Committee felt that the need for imported trainer aircraft would not have arisen, had the programme been drawn up realistically and indigenous capacity for manufacture of trainer aircraft been fully utilised. The explanation of the Defence Secretary that the HAL could not have met the increased demand was not convincing and the Committee recommended that the capacity of the HAL, which had been developed over the years with huge public investments for meeting the requirements of Air Force for different aircraft, should be utilised optimally. The procurement of the aircraft, despite adverse report of the Air Force, and its subsequent poor performance, only proved the wrong decision due to lack of realistic estimation of the parameters and the planning of utilisation. Revision of the norms and parameters was suggested to enable future details being worked out more realistically. The expenditure of Rs. 65.23 lakhs on the repairs of the aircraft which was the responsibility of the supplier showed lack of concern for public funds on the part of the Ministry of Defence. Because of the lapse on

* Para 6 of AR 1981-82.

$$ 215th Report (83-84) 7th L.S.

the part of the Defence authorities to exercise the requisite option for purchase of certain armaments and ammunition costing Rs. 50 lakhs, which was just a small part of the contract, the trainees of the earlier batches could not be imparted training in the vital field of armaments, which again showed lack of proper planning on the part of the Defence authorities. The expenditure of nearly 3.73 crores incurred on the overhauling of the engines and air frames of the aircraft was an avoidable drain on the scarce foreign exchange resources of the country. The defence authorities have recognised, though belatedly, the need for establishing these facilities indigenously and the Committee recommended that the proposed examination should be expedited so that the outgo of foreign exchange could be avoided. The whole expenditure of Rs. 14.61 crores in foreign exchange apart from the other expenditure incurred thereon was unnecessary and could have been avoided and the growing tendency on the part of the Defence authorities to go in for imports, even when the demand could be met indigenously was disturbing and the Committee recommended examination of the whole matter in detail with a view to identify the drawback in the system, which allowed a variety of lapses to occur and to take necessary steps for obviating such lapses in future and desired to be apprised of the action taken within six months. 12 recommendations$ were accepted by the Government and 3 recommendations/observations, replies to which were not accepted by the Committee, were reiterated.

WORKING OF THE DEPARTMENT OF DEFENCE SUPPLIES$

The review brought out that during the last 16 years 88,984 items had been projected for development and procurement through indigenous sources and supply orders for 47,363 items only could be placed by the DDS. In 193 cases, the DDS took 12 to 36 months in placing supply orders from the date of receipt of indents, while against 36 supply orders (total value Rs. 8.97 crores) placed upto June, 1979, the suppliers had failed (August, 1982) to submit samples or commence supplies for over 3 years; against 67 other supply orders (total value : Rs. 33.21 crores) placed during 1972 to June, 1979 stores worth Rs. 12.10 crores only had been supplied till August, 1982. Advances amounting to Rs. 8.36 crores remained unadjusted in respect of 67 supply orders for periods ranging from 2 to 5 years; the amount outstanding against 28 firms as on 29th September, 1983 was Rs. 1.566 crores. Failure on the part of the DDS to comply with the contract conditions regarding cancellation of contract

* 1st Report (85-86) 8th LS $ Para 5 of AR 1982-83, signed by Shri K.N. Row and countersigned by Shri Gian Prakash.

and to effect risk and cost purchase within 6 months of date of breach of contract resulted in extra expenditure of Rs. 10.91 lakhs. Air compressors (cost: Rs. 2.16 lakhs) and generating sets (cost Rs. 2.96 lakhs) which did not conform to specifications, were procured. Non-acceptance of offers within the validity period in 3 cases resulted in extra expenditure of Rs. 1.02 crores; delays in supplies in 2 cases resulted in avoidable expenditure of Rs. 2.30 crores and procurement of an item of common utility (paint RFU) ignoring the established source of supply resulted in extra expenditure of Rs. 18.33 lakhs. An expenditure of Rs. 5.90 lakhs on retreading of BLR tyres ex-trade proved infructuous besides non-return of 34 BLR tyres (cost Rs. 0.79 lakh) by the repair agency for nearly 6 years. Out of liquidated damages amounting to Rs. 37.83 lakhs leviable in 92 cases, a sum of Rs. 18.78 lakhs (44 cases) was fully waived.

The PAC* made 30 recommendations/observations and the sum and substance was that Government should identify the bottlenecks responsible for heavy shortfall in placement of supply orders, particularly in respect of the items identified by the Technical Committees. While fully appreciating the constraints faced by the Ministry in indigenisation of equipments, the Committee was not satisfied that everything possible had been done to accelerate the pace of indigenisation. Procedures should be evolved in consultation with all concerned so as to ensure processing of indents within the shortest possible time and periodic reviews of the Supplies Division should be conducted by the Department with a view to streamlining the purchase procedure so that unnecessary delays at all stages could be obviated. Suitable mechanism for effective and early execution of the developmental supply orders should be evolved without delays, which should contain built-in safe guards for recovery of advance in the event of failure or cancellation of the supply orders. The inspection staff had no excuse for not complying with the obvious norms of inspection of items produced in developmental orders and accepting them only on visual inspection which was a serious failure and the Ministry should take appropriate disciplinary action against those responsible. The Committee did not agree with the findings of the Board of investigation and desired the Department to review the matter and take more stern action so that such lapses might not recur in future. The Committee took a very serious view of the entire transaction and recorded dissatisfaction and displeasure in regard to the 25 idle generating sets. The system of placement of educational/developmental orders at a

* 44th Report (85-86) 8th Lok Sabha.

preferential price on new enterpreneurs besides placing order for the major portion of supplies on established suppliers followed by the Ministry of Transport (Department of Railways) was commended for acceptance by the Department of Defence Supplies. The Committee did not find any justification for generous enhancement of price for shelter by both suppliers. Procurement action in respect of common utility items should, in future, as far as possible, if not invariably, be taken in consultation and coordination with the DGS & D and other concerned agencies. The case of tyres BLR was yet another instance of complete lack of planning, coordination and foresight on the part of the Department, which resulted in avoidable loss to the Government. Comprehensive guide lines for the concerned departmental officers should be issued to ensure judicious exercise of discretion to waive penalties. The question of further revamping these guidelines should be periodically reviewed. The Department of Defence Supplies had not been able to achieve, what was expected of them, despite the fact the Department had been functioning for the past twenty years, and had not succeeded in establishing many reliable producers of defence stores and equipments *pari passu* with the industrial development of the country. The failure was all the more disappointing in as much as Government appears to have followed a liberal policy with regard to development expenses, and hoped that the Department would examine the various suggestions made for improving its working. A High Level Committee should be appointed to go into the entire question of indigenisation and production of defence stores in the country. *16 recommendations were accepted by Government; 6 recommendations were not pursued on receipt of replies of Government; 8 recommendations/observations replies to which were not accepted by the Committee were reiterated and for 1 recommendation only interim reply was received and final reply was asked for.

The sanction and execution of the project for setting up** of repair facilities for Seaking Helicopters inducted in service during 1971 was unduly delayed and had not been completed till June, 1985 when the PAC took up the examination of the case. By the time the helicopter had completed three fourth of its life, repairs were carried out abroad at a cost of Rs. 87.58 lakhs. The PAC$ recommended, *inter alia,* that whenever any item was purchased from abroad, all matters relating to relevant technical know-how, the requisite repairs and spares and the

---

* 83rd Report (86-87).

** Para 52 of AR 1982-83.

$ 24th Report (85-86) 8th Lok Sabha.

training of personnel should be finalised as far as possible initially and simultaneously as a package. The Ministry of Defence streamlined the procedure to cut short the delay for the execution of important projects and introduced a higher level review of the pending important projects every week with representatives of Naval HQ and Finance and the Secretary would review the projects personally every month. A Steering Committee was also constitued to monitor the projects. Policy for appopintment and selection of personnel for specialised training in India was revised.

DEVELOPMENT OF A TRAINER AIRCRAFT*

Though the equipment 'X' for the Army was successfully developed by a Defence R & D Establishment 'L', it could not be productionised, as Army in the mean time (1976) had projected a new qualitative requirement and the project was decided to be closed (March, 1981) after incurring an expenditure of Rs. 14.08 lakhs. The development of the equipment for the Navy was also foreclosed (April, 1976) after incurring an expenditure of Rs. 2.33 lakhs, as the Navy had decided not to introduce the equipment 'X'. The equipment for the Air Force was successfully developed (March, 1979) in close association with undertaking 'N' but it was not taken up for production by the undertaking immediately, as the equipment was not included in its production plan and its order book was full. The production agency was, therefore, changed to undertaking 'M' to whom the design of the equipment developed by the Establishment 'L' was not acceptable and required a longer period for commencing production. The production agency was, therefore, again changed (September, 1982) and order for manufacture placed on a State Government undertaking 'O' resulting in a cumulative delay of over 3 years in taking up the production of the equipment after its development, which necessitated additional import of the equipment in March, 1981 at a cost of Rs. 209.74 lakhs in foreign exchange (excluding spares) involving an increase of Rs. 85.71 lakhs over the earlier imported cost (for the same quantity). Though import of the equipment was approved in March, 1976, to replace the ageing equipment during 1976-77, contract for the same was concluded with foreign firm 'F' only in June, 1977. A major portion of the equipment was actually delivered during 1979-80 involving delay of 5 months over the delivery schedule and 17 per cent of the equipment imported remained to be installed (April, 1984).

* Para 8 of AR 1983-84, signed by Shri M. Parthasarathy and countersigned by Shri T.N. Chaturvedi.

WORKING OF THE CONTROLLERATE OF PROCUREMENT*

Review brought out that 98.3 per cent and 76.7 per cent of the total number of items covered by the orders placed during the years 1980-81 and 1981-82 respectively were procured through local purchase; in respect of fast moving items, where procurement should have been made through Central Purchase, the requirements were split and procurement made through LPOs within the delegated powers of lower competent financial authority; piecemeal procurement through local purchase of soda ash despite the item being covered by the DGS & D rate contract, resulted in extra expenditure of Rs. 3.09 lakhs. Cases of irregular procurement of a non-patternised item (plastic rain coat) costing Rs. 2.05 lakhs against requirement of patternised item, unnecessary procurement of stores valued at Rs. 9.83 lakhs, shelf life of which had already expired or was nearing expiry, irregular procurement of paper labels at exorbitant rates resulting in extra expenditure of Rs. 0.92 lakh, extra expenditure of Rs. 1.44 lakhs in procurement of waste cotton and rags cotton due to non-acceptance of lowest tender and resorting to re-tendering, avoidable extra expenditure of Rs. 3.64 lakhs in procurement of sandals PVC due to non-acceptance of lowest offer, incorrect procurement of stores such as rope polypropylens, foam rubber products, etc., (being marketed by several manufacturers) on single tender basis on the basis of propriety article certificates and large scale procurement of stores costing Rs. 192.26 lakhs made during 1981-82 and 1982-83 by the FIT of the CPRO created for procurement of stores for operational requirement in violation of laid down guidelines were the other points. The para did not incorporate the reply of the Ministry, despite ample time given for replying.

The PAC* observed that the points brought out by Audit amply demonstrated that all was not well with the functioning of the CPRO and the objectives of the setting up of CPRO were not fully achieved and recommended an enquiry into the purchases made by the CPRO since its inception. The MOD issued several instructions streamlining the procedures for inviting tenders, registration of suppliers, local/central purchase of stores, weeding out of suppliers who performed unsatisfactorily and investigated the various irregularities and took disciplinary action against three service officers and constituted a Board of Officers to look into the working of the CPRO since its inception.

* Para 32 of AR 1983-84,
* 51st Report (86-87).

MILITARY ENGINEERING SERVICES**

The review of MES in 25 divisions in 5 commands brought out that expenditure during the closing month (March,) for the period 1979-80 to 1983-84 was 2 to 3 times the average monthly expenditure incurred during the first eleven months. Works valuing Rs. 4.70 crores were taken up for execution during the years 1979-80 to 1983-84 without obtaining prior sanction of the competent authority; works valuing Rs. 1.39 crores executed upto 1978-79 on urgent Military grounds were awaiting formal sanction till 31st March, 1984; Works valuing Rs. 13.91 crores were executed upto 1982-83 on operational military necessity, of which works valuing Rs. 6.11 crores were awaiting formal sanction till 31st March, 1984. In certain cases, taking up of works as operational military necessity was not justified. Works valuing Rs. 3.90 crores commenced prior to 1st April, 1969 under Emergency Works Procedure were awaiting regularisation even after 10 years of withdrawal of the procedure and after 15 years, the value of works not regularised was Rs. 0.18 crore as on 31st March, 1984. In 17 projects sanctioned by the Ministry between November, 1978 and March, 1983, the delay in accepting the necessity and according administrative approval ranged between 1 and 4 years. In 15 projects sanctioned by the Ministry between December, 1971 and April, 1982, delay in execution of works ranged from over 1 year to 5 years; in fact, 3 of these works had not been taken for execution till March, 1985. While the CPWD revised their schedule of rates (SSR) 8 times during the period 1962 to 1985, the MES could revise their SSR only 4 times. Adoption of out-dated schedules of rates in MES could not be an effective guide either for preparing estimates or for accepting tendered rates. 6,719 contract agreements concluded in 5 commands during 1980-81 to 1983-84 were not submitted within the prescribed period to the CSDA thereby resulting in payment of advances to contractors without scrutiny. In 3,362 cases, during 1980-81 to 1983-84, the prescribed period was not allowed to contractors for quoting their rates. Extensions of time granted to contractors during 1980-81 to 1983-84 were more than the original period fixed for completion in 39 per cent of the cases and half of more than half of the original period in 28 per cent of the cases. The total amount outstanding on account of over-payments to and short recoveries from contractors detected by the CTE (Works) was Rs. 2.59 crores at the end of 31st March, 1984; of this, Rs. 54.52 lakhs was detected during 1983 as a result of site and technical examination of

** Para 20 of AR 1984-85, signed by Shri M. Parthasarathy and countersigned by Shri T.N. Chaturvedi.

final bills valuing Rs. 253.54 crores representing 48 per cent of the total work load of Rs. 5626.30 crores. Claims for Rs. 49.59 lakhs on account of defective workmanship pointed out for recovery by the CTE during the period February, 1976 to September, 1976 in respect of 4 completed works were rejected by the Arbitrators in non-speaking awards. Cases of loss of stores and cash totalling Rs. 7.00 crores were awaiting regularisation as on 31st March, 1984. The outstanding rent and allied charges showed an increasing trend over the years and stood at Rs. 3.38 crores as on 30th June, 1984; dues outstanding for more than 10 years amounted to 21 per cent of the total outstanding and dues outstanding against private parties and retired/released officers represented 25 per cent and 10 per cent respectively. The total amount outstanding against units/formations on account of non-recovery of barrack damages at the end of 1983-84 stood at Rs. 29.14 lakhs. In 8 projects in a Command, there was excess procurement of cement valuing Rs. 50.51 lakhs and steel valuing Rs. 92.85 lakhs resulting in surplus. In another project, bitumen procured in excess, valuing Rs. 38.62 lakhs, was transferred to other formations at a cost of Rs. 4.67 lakhs. In one project, procurement of steel through contractor, as against normal practice of supply of steel by the department, on grounds of urgency resulted in an additional expenditure of Rs. 30.17 lakhs. In 4 commands, out of 286 cases referred to Arbitrators during 1978-79 to 1980- 81, 116 cases were pending with the Arbitrators as on 1st January, 1982 and 103 out of 170 cases decided by the Arbitrators between 1978-79 and 1981-82 (upto December, 1981) went in favour of contractors and all awards were non-speaking. Sanction for construction of 7 quarters for MES Staff costing Rs. 1.67 lakhs was not justified. For a project for residential accommodation for 6 Naval Establishments at Station 'M'(cost : Rs. 472.92 lakhs) sanctions were accorded by the Naval HQ in parts so as to bring these within its powers. Due to inadequate supervision by the engineers and the absence of authenticated copies of drawings an over head reservoir tank collapsed during test trials. The contractor rebuilt it at his own cost but the tank collapsed again during test trials. Out of 23 Part I items and 1,862 Part II items contained in 1,020 LTARs that were issued bet~~ween 1981-82~~ and 1983-84, 20 Part I items and 1,138 Part II items remained out standing as on 30th September, 1984 and even first reply to 5 Part I items and 451 Part II items had not been received by that date. The Committee* made 33 recommendations and its examination revealed a number of loopholes, which needed to be plugged. Government should identify area of slippages and effectively

* 93rd Report (86-87) 8th Lok Sabha.

monitor the expenditure so that there was no rush of expenditure during the month of March. The procedures, practices, and organisations prevailing in the MES required critical analysis and review. Government should take steps to ensure that the works executed in exceptional circumstances were regularised by issue of formal sanctions promptly and the gap between the administrative approval and the commencement of the work should be the barest minimum. Selection of works for execution under Revised Works Procedure should be done scrupulously and only those works which fulfilled the prescribed conditions should be executed thereunder. Inordinate delays were strongly deprecated and projects should be completed within the stipulated time and cost schedule. The Government should go into the relevant issues and fix responsibility and take further necessary action under intimation to them. The work should be so organised that the revised schedules were published in time and became operative on schedule and emphasied the need for efficient planning and monitoring of the execution of works so as to ensure completion as per schedule. Effective steps should also be taken to ensure that such large accumulations of recoveries did not take place in future. Immediate steps should be taken to ensure that types of recoveries and nature of defects in workmanship pointed out by CTE organisation did not take place in future and the remedial instructions to avoid such lapses in future, were scrupulously observed. Terms of contract should be suitably modified to discourage pilferage or misappropriation of stores and to effect recoveries and to award adequate punishment for losses due to negligence and fraud. The existing procedure for regularisation of losses should be throughly reviewed and suitable changes effected for achieving early regularisation of such losses. The Ministry should take concerted measures to ensure against accmulation of dues against public and private authorities. Procurement of cement and steel should be judiciously and realistically planned and urged the Government to fix inventory level of important store items on realistic basis which should also be periodically reviewed to ensure that carrying cost of inventory was avoided. There was a total failure of planning and foresight in indenting of store requirement in advance. Concrete measures should immediately be devised to ensure that arbitration awards were given within the stipulated period of 6 months as far as possible, and steps were taken to clear outstanding arbitration cases by taking special steps. Suitable effective remedial steps should be taken urgently to safeguard financial interest of the Government. Stern and prompt action should be invariably initiated in all such cases involving Government officials found to be callous and negligent in performance of their duties. The matter should also be throughly examined with a view to take suitable remedial steps to obviate the chances of such recurrence in future. Immediate steps should be taken to devise suitable modalities to monitor these irregularities so that timely replies thereto were sent to Audit and settlement of audit objection should be given top priority and the Government should periodically review progress in settlement of such objections at an appropriate high level. 16 recommendations were accepted@ by Government, 8 recommendations were not pursued by the Committee after replies of Government were received and 7 recommendations or observations for which replies received were not acceptable to the Committee, were reiterated.

DELAY IN THE SELECTION AND PRODUCTION OF A NEW AIR CRAFT JAGUAR$

Extra burden of Rs. 105.92 crores had to be borne by the Public sector undertaking due to the curtailment in the indigenous manufacturing programme, which not only rendered the aircraft being equipped with an obsolescent system, but also caused delays in the selection and procurement of radar and stimulator and in setting up of repair and overhaul facilities resulting in avoidable costs and adverse operational impliciation for the Air Force. The PAC** recommended *inter alia* the need to eliminate delays in the selection of defence equipment and taking measures for appropriate changes in the decision making process and added that Government should be extremely judicious in the matter of selection of defence equipment keeping in view not only the existing but also developing technology in the field. The Committee deprecated the lack of seriousness on the part of the authorities in making the support facilities available in time. The action taken by the MOD was awaited.

INFRUCTOUS AND AVOIDABLE EXTRA EXPENDITURE IN THE ACQUISITION OF CERTAIN SPECIAL PURPOSE VESSELS*

Offers for the supply of certain special purpose vessels received during 1976 and 1978 from six shipyards in foreign countries were examined by a Price negotiating Committee (PNC) set up in February 1979 and offers of firm 'A' of country 'X' and firm 'B' of country 'Y' in April, 1980 were short listed and a Public Sector Undertaking (PSU) was selected for the

---

@ 131st Report (87-88) 8th Lok Sabha.

$ Para 24 of AR 1985-86, signed by Shri M.M.B. Annavi and countersigned by Shri T.N. Chaturvedi.

** 114th Report (8th Lok Sabha).

* Para 55 of Report No. 2 of 1988, signed by Shri M.M.B. Annavi and countersigned by Shri T.N. Chaturvedi.

indigenous construction of the vessels. Release of ammuntion 'Z' offered by firm 'D' of country 'Y' for use with the vessels of firm 'B' was subject to clearance by their Government. The technical evaluation by the Naval HQ held the offer of firm 'A' superior to the offer of firm 'B' by 174 points as the 'best vessel' and by 84 points in the overall analysis and the financial evaluation showed the offer of firm 'A' for two vessels with two material packages (excluding spares) was cheaper by Rs. 1.41 crores.

The abnormal variation in the prices of spares (355 per cent) quoted by the two firms was not enquired into, although the spares philosophy of the Indian Navy was confirmed as understood by both the firms, which became crucial later, when firm 'B' increased the price of spares by Rs. 26.56 crores (compared to Rs. 19.31 crores offered by firm 'A') when the contract was to be concluded with firm 'B'. While the Government of country 'X' agreed wholly in May, 1980 to the draft MOU without conditions, as wanted by Government, no such agreement had been reached with the Government of country 'Y' till 30th June, 1980. The Government approved (30th June, 1980) the offer of firm 'B' of country 'Y' for procurement and indigenous construction of four vessels subject to the clearance of ammunition 'Z' to be supplied by firm 'D' and satisfactory acceptance of the essential features of the MOU by the Government of country 'Y', even though the offer of firm 'A' had emerged as the best techno-economic option and there was complete agreement with country 'X' on the MOU. The Government of country 'Y' gave the clearance for sale of ammunition 'Z' of firm 'D' only in July, 1980 and instead of signing a satisfactory and acceptable MOU with the Government of country 'Y' a "Technical Assistance Agreement" was signed on 10th July, 1981 and a Note Verbale was exchanged on 11th December, 1981, subject to the constitutional and legal provisions of country 'Y' governing the export of armament and related material, whereas the draft MOU accepted by country 'X' did not contain such conditions, which took 18 months to finalise and the consequent escalation commitment of an additional liability of Rs. 21.33 crores. Firm 'B', in the meantime, revised its prices to Rs. 101.55 crores which, inter alia, included Rs. 5.80 crores as an ex-gratia one time payment due to revision of quotations by sub-contractors of firm 'B' and Rs. 27.20 crores for increase in the cost of spares. After negotiation, it was decided in November, 1981 not to include the supply of spares in the contract but to procure them separately on a commitment from firm 'B' that it would supply the spares at fair and reasonable prices. Ultimately, the spares originally quoted by firm 'B' at Rs. 5.44 crores and for which Government had provided Rs. 32 crores were being procured at a cost of approximately Rs. 60 crores, of which Rs. 16 crores had been paid upto September, 1987. Had the abnormal variation in prices for spares quoted by the two firms prior to 30th June, 1980 been analysed, the decision to exclude the spares from the main contract could have been taken earlier, when the offer of firm 'A' was also available, which would have lowered the offer of firm 'A' by Rs. 11.41 crores. The possibility iof firm 'B' having quoted intentionally a lower figure of spares, despite its awareness of the spares philosophy of the Navy could not be ruled out. Against a background of significant increase in the prices of spares and difficulties in negotiating an acceptable MOU, the Ministry did not explore the possibility of falling back on firm 'A', whose terms were advantageous, which was explained as due to firm 'B's better delivery schedule, and similar problems arising out of opening negotiations at that late stage with firm 'A'. This was not plausible in view of the time taken to finalise the MOU (which was not so satisfactory) and apprehension about likely problems with firm 'A' was groundless. Firm 'B's request for an ex-gratia payment of Rs. 5.8 crores to absorb the additional costs on escalation was accepted by Government but later the claim of firm 'B' was not found to be correct by the Naval authorities from a number of contractors/suppliers of equipment for firm 'B' directly for the supply of a complete unit and spares and the quotations obtained were found considerably lower than the claims preferred by firm 'B'. An exacting technical requirement regarding self-noise of the vessels was not insisted upon lest the negotiations be broken by the firm. The Government approved the project in November, 1981 at a cost of Rs. 359.59 crores. Contracts were signed in December, 1981 with firm 'B' for the procurement of 2 vessels and 2 material packages. Another contract was signed in December, 1981 with firm 'D' for the supply of ammunition 'S'. The vessels which were due for delivery in February and August, 1986 were actually delivered in September, and November, 1986 after a delay of 3 to 7 months and Rs. 25 lakhs was reported to have been recovered from firm 'B' as penalty for this delay. The construction of 2 vessels by the PSU with the material packages contracted with firm 'B', which was to be completed in 1987 and 1988 respectively, is expected to be completed only by 1990 and 1991. As a result of the abnormal delay in the completion of the vessels by the PSU, the Navy will not be able to avail of the warranty of 30 months provided for the equipment ordered in the material packages, apart from the cost over-runs likely to occur and the impact which the delay will have on the operational commitments of the Navy.

The paragraph* was examined by the PAC (1988-89) at their sittings held on 29th November, 1988 and 27 December, 1988 and decided at their sitting held on 21st April, 1989 to consider the draft Report in the light of the suggestions made by some members at a future sitting and the Committee* (1989-90) considered and finalised and report at their sitting held on 13th October, 1989. The Committee concluded that the decision of the Government for supply and indigenous manufacture of SPVs in favour of firm 'B' was a logical one with reference to the facts reported to it from time to time and could not have been otherwise. The Committee expressed distress over the delay of 18 months in the signing the contract with firm 'B' by the CCPA on 30th June, 1980, which resulted in the payment of Rs. 21.33 crores as escalation between the date of the offer and the date of signing of the contract, in addition to a sum of Rs. 5.8 crores, as *ex-gratia*. It was evident from the difficulties that arose in finalising the contract, that, at the initial stages when the offers were obtained, nothwithstanding sufficient time having been taken, adequate details were not obtained and the assessment of technical parameters was not as satisfactory as it ought to have been and the committee emphasised that both Navy and the Ministry should draw appropriate lessons from this and take steps to avoid recurrence of such delays and consequential avoidable expenditure in future. The whole matter relating to listing and acquisition of B & D spares was found to have been dealt with in perfunctory and piecemeal manner and having excluded B & D spares for comparative financial evaluation in August, 1979 and its non-inclusion, while making an overall comparision of the total cost of the two offers, and in then final CCPA paper, was surprising. Subsequently adequate efforts were not made to ensure that the spares requirements were listed and procured without delay resulting in avoidable cost escalations. The Committee emphasised the need to streamline the procedure for assessment and procurement of spares in a more timely and systematic manner in future. The Ministry should take note of the lesson learnt from this experience in respect of evaluation and provisioning for spares to ensure better systems and accountability. The Committee recommended that comprehensive guidelines should be drawn up by Government with regard to the negotiation and implementation of defence contracts, so as to improve efficiency and effectiveness within the specified time frame. In the opinion of the Committee, the organisational structures and

* PAC's 187th Report (89-90) 8th Lok Sabha, presented by Shri P. Kolandaivelu Chairman.

* The Committee that approved the Report was not attended by representatives of major opposition parties.

systems will have to be improved and streamlined to ensure better results and greater accountability in a world of increasing specialisation, speed and sophistication. The point regarding the technical parameter of the vessel 'self noise' mentioned in the para was ignored by the Committee for no valid reasons. Thus, the Committee did not agree with the basic audit finding on the selection of firm 'B', by a logic of its own with apparent flaws in the cost calculation of the offers. It appears from the Committee's report that some of the evidence placed before it was not made available to Audit earlier and still the Committee chose to rely on it without even expressing its resentment on denial of such documents to DADS was a greater tragedy than disregarding the audit finding on the deal. Yet another convention established by past PACs in relying on the parameters and the arithmetic worked out by CAG was broken for no obvious gain, except supporting Government decision on the deal, which had created uproar in the Parliament and wide exposure in the media for some time. The new Government which took over after the general elections in December 1989 is reported to have taken up the deal for further inquiry by CBI.

LIST OF ABBREVIATIONS

1.	AAO,DS(F)	— Assistant Audit Officer, Defence Services (Factories)
2.	ADA(DS)	— Assistant Director of Audit (Defence Services)
3.	AFMS	— Armed Forced Medical Stores
4.	AO	— Audit Officer
5.	ASC	— Army Supply Corps
6	AR	— Audit Report
7.	AR(DS)	— Audit Report (Defence Services)
8.	CA to AA	— Commercial Appendix to Appropriation Accounts
9.	CAG	— Comptroller and Auditor General
10.	CAO	— Chief Accounts Officer
11.	CAOF	— Chief Auditor, Ordance Factories
12.	CDA	— Controller of Defence Accounts
13.	CDA(F)	— Controller of Defence Accounts (Factories)
14.	CGDA	— Controller General of Defence Accounts
15.	CIA(F)	— Chief Internal Auditor (Factories)
16.	CLA Act	— Central Land Acquisition Act
17.	COF(F)	— Controller of Finance (Factories)
18.	COPU	— Committee on Public Undertakings
19.	CPRO	— Controllerate of Procurement
20.	CSDA	— Controller of Stores, Defence Accounts
21.	CSD	— Canteen Stores Depot
22.	CTE	— Chief Technical Examiner
23.	DA AF&N	— Director of Audit, Air Force & Navy
24.	DDA(DS)	— Deputy Director of Audit (Defence Services)
25.	DAD	— Defence Accounts Department
26.	DADS	— Director of Audit, Defence Services
27.	Dy.FA(AF)	— Deputy Financial Adviser (Air Force)
28.	DG	— Director General
29.	DGOF	— Director General, Ordance Factories
30.	DRDO	— Defence Research and Development Organisation
31.	EDP	— Electronic Data Processing
32.	EME	— Electrical and Mechanical Enginnering
33.	FADS,MOD	— Financial Adviser, Defence Services, Ministry of Defence
34.	FCMA	— Financial Controller of Military Accounts
35.	FCMA(ORs)	— Financial Controller Military Accounts (Other Ranks)
36.	GOC-in-Chief	— General Officer Commanding-in-Chief
37.	HAL	— Hindustan Aeronautics Limited
38.	IAAS	— Indian Audit & Accounts Service
39.	IAF	— Indian Air Force
40.	IDAS	— Indian Defence Accounts Service
41.	IRLA	— Individual Running Ledger Account
42.	JCDA	— Joint Controller of Defence Accounts
43.	JDA(DS)	— Joint Director of Audit (Defence Services)
44.	J&K	— Jammu and Kashmir
45.	JPC	— Joint Parliamentary Committee
46.	LS	— Lok Sabha
47.	LTAR	— Local Test Audit Report
48.	MES	— Military Engineering Services
49.	METAC	— Medium Technical Transport Aircraft
50.	MOU	— Memorandum of Understanding
51.	NCC	— National Cadet Corps
52.	NC(E)	— Non-Combatants (Enrolled)

53.	OEFG	— Ordance Equipment Factories Group
54.	OFB	— Ordnance Factories Board
55.	ORs	— Other Ranks
56.	PA	— Personal Assistant
57.	PAC	— Public Accounts Committee
58.	PM	— Prime Minister
59.	PTA	— Pilotless Target Aircraft
60.	QMG	— Quarter Master General
61.	R&D	— Research and Development
62.	RLA Act	— Rajasthan Land Acquisition Act
63.	SAI	— Supreme Audit Institution
64.	SAS	— Subordinate Accounts Service
65.	Sr DDA(DS)	— Senior Dy. Director of Audit (Defence Services)
66.	SG Ar/Ar	— Selection Grade Auditor/Auditor
67.	SGUDC/UDC	— Selection Grade Upper Division Clerk/Upper Division Clerk
68.	SO	— Section Officer
69.	SSR	— Standard Schedule of Rates
70.	Steno	— Stenographer
71.	UK	— United Kingdom
72.	USA	— United States of America
73.	VIP	— Very Important Person
74.	VVIP	— Very Very Important Person
75.	WP&S	— Works, Production and Supply

SOURCES AND REFERENCES

1. History of IAAD by Shri M.S. Ramayyar.
2. Manual of Defence Audit.
3. Manual of Defence Accounts Department.
4. Statement of Strength.
5. Report of Rajyadhyaksha Committee.
6. Report of Abhyankar Committee.
7. The system of National Finance - Hilton Young.
8. The Control of Public Expenditure - Basil Chubb.
9. Audit Reports 1946-47 to 1987-88
10. *PAC Reports*
    - Second Report on the Accounts of 1948-49 (Railways and Defence Services).
    - Nineth Report (1953-54) on the Accounts of 1949-50 and 1950-51 (Defence Services).
    - Forty-third Report (1961-62) Second Lok Sabha.
    - Fourth Report (1962063) Third Lok Sabha.
    - Thirty Seventh Report (1964-65) Third Lok Sabha.
    - Seventy First Report (1966-67) Third Lok Sabha.
    - Sixty Ninth Report (1968-69) Fourth Lok Sabha.
    - 190th Report (1969-70) Fourth Lok Sabha.
    - 82nd Report (1972-73) Fifth Lok Sabha.
    - 81st Report, Sixth Lok Sabha.
    - 101st Report, Sixth Lok Sabha.
    - 43rd Report, Seventh Lok Sabha.
    - 106th Report, Seventh Lok Sabha.
    - 151th Report, Seventh Lok Sabha.
    - 156th Report, Seventh Lok Sabha.
    - 214th Report, Seventh Lok Sabha.
    - 159th Report, Seventh Lok Sabha.
    - 190th Report, Seventh Lok Sabha.

- 207th Report (1983-84), Seventh Lok Sabha.
- 215th Report (1983-84), 7th Lok Sabha.
- 1st Report (1985-86), 8th Lok Sabha.
- 24th Report (1985-86), 8th Lok Sabha.
- 44th Report (1985-86), 8th Lok Sabha.
- 51st Report (1986-87), 8th Lok Sabha.
- 83rd Report (1986-87), 8th Lok Sabha.
- 86th Report (1986-87), 8th Lok Sabha.
- 93rd Report (1986-87), 8th Lok Sabha.
- 114th Report, 8th Lok Sabha.
- 131st Report (1987-88), 8th Lok Sabha.
- 187th Report (1989-90), 8th Lok Sabha.

11. *Estimates Committee Reports*
    Estimates Committee's First Report (1952-53).

20 Audit of Posts and Telegraphs

ORGANISATION

The control of Postal, Telegraph and Telephone Services was vested in the Director General of Posts and Telegraphs, who functioned under the administrative control of the Government of India in the Ministry of Communications and was delegated with specific administrative and financial powers. The postal and telegraph services were divided into four distinct branches, namely, Postal, Engineering, Wireless and Traffic, and the Director General was assisted by 15 officers of superior establishments. The headquarters of the Director General and other officers of the directorate were located at New Delhi. The Chief Engineer, Posts and Telegraphs, was the official adviser of the Director General on all subjects relating to telegraphs and telephones, including traffic as well as engineering, technical and wireless matters. He was responsible for ensuring the efficient execution and maintenance of all telegraph (including wireless) and phone works and the efficient control of stores and workshops and expenditure connected with works and also for advising on staff and establishment questions pertaining to these branches. He was assisted by Deputy Chief Engineers and Assistant Chief Engineers in regard to wireless, engineering and project questions. The Senior Deputy Director General, Posts and Telegraphs advised the Director General on all postal and railway mail service (RMS) matters and was assisted by Director, Postal Technical, and Assistant Directors General and one Assistant Deputy Director General. The Deputy Director General, Staff and Establishment, controlled the establishment of postal, telegraph and engineering staff and was assisted by Director, Staff and Establishment, and one Assistant Chief Engineer and Assistant Director General. The Deputy Director General, Telegraphs, controlled the telegraph and telephone traffic and was assisted by one Director of Phones and one Assistant Deputy Director General. The Department was divided into nine circles - each under a Post Master General, except few Circles and districts. The Assam and Orissa Circles were under Directors, Posts and Telegraphs. The Delhi Circle was under a Director, Postal Services and Jabalpur Circle, under an Additional Chief Engineer. Telephone Districts at Calcutta and Bombay were under General Managers and Telephone Districts at Delhi and Madras, were under District Managers. Under each Head of Circle, there was (i) Postal Branch including R.M.S. under Directors of Postal Services and

Assistant Postmasters General with Superintendents of post offices and Railway Mail Service in charge of Divisions, Inspectors of post offices and Railway Mail Service in charge of Sub-Divisions, Head Postmasters, Sub-Postmasters and Branch Postmasters, and (ii) Telegraph Traffic Branch with Chief Superintendents in charge of Presidency Offices, Superintendents Traffic, Telegraph masters in charge of telegraph offices, and Telegraphists in charge of departmental telegraph offices and (iii) Telegraph Engineering Branch including Wireless Service under Directors of Telegraphs, Divisional Engineers, Assistant Divisional Engineers, Supervisors etc. The Additional Chief Engineer, Technical and Development Circle, at Jabalpur acted as a technical adviser to the Director General with limited jurisdiction of powers. The workshops organisation was under the General Manager, Posts and Telegraphs Workshops, Alipore and Telegraph Workshops at Alipore and Jabalpur were under the charge of a Superintendent and the Telephone Workshop at Bombay under a Manager. The Chief Controller of Telegraph Services was in charge of the Stores Organisation. The Accounts Officers, Telephone Revenues, Northern and Central at Delhi and at Nagpur and the Chief Accounts Officer, Telegraph Stores and Workshops at Calcutta were responsible for maintaining proper accounts relating to telephone revenue and telegraph stores and workshops respectively.

FUNCTIONS

The major functions of the Department of Posts and Telegraphs were sales of stamps for postage and philatelic purposes, both local and overseas, providing facilities for internal and external remittance of cash by means of money order and postal order and conveyance of all kinds of mails to be delivered to the public at large in the country. Certain agency functions on 'no loss no profit basis', like savings bank and other small savings schemes of Government of India, postal life insurance, collection of customs duty on postal articles on behalf of Government of India, disbursement of family pension to industrial employees etc. were also carried out. The Department of Telecommunications was responsible for the entire telecommunication activities in the country - telephone, telex, telegraph services including installation and maintenance, providing service to the public and collection of revenue thereof and carried out its activities through telecom circle offices, major and minor telephone districts. The revenue receipt of the P&T department in 1947-48 was Rs. 1618.10 lakhs and expenditure Rs. 1333.97 lakhs, showing a net surplus of Rs. 284.13 lakhs. While the postal net work was highly labour intensive, the telecommunication net work was highly capital intensive.

TELECOMMUNICATION CIRCLES

From the middle of 1974, separate telecommunication circles headed by General Managers, distinct from the postal circles headed by Postmasters General were formed, which had separate General Managers in charge of Project, Maintenance, Quality Assurance, Research and Development, etc. There were four telecom factories at Bombay, Calcutta, Jabalpur and Bhilai. In 1978, one more telecom factory was established at Kharagpur. The Department was vertically bifurcated and two separate Boards, Telecommunication Board and Postal Board were formed in December 1984. The Civil Works Wing was also bifurcated into two to look after the Civil construction and maintenance activities of the respective departments. The telephone net work under the telephone districts of Bombay and Delhi were taken over by the Mahanagar Telephone Nigam Limited, a government company, which was formed with effect from 28th February, 1986 with an investment of Rs. 266.52 crores. The Overseas Communication Service was taken over by another government public limited Company, namely, Videsh Sanchar Nigam Limited with effect from 1st April, 1986 with an investment of Rs. 1.35 crores. The receipts and expenditure of the Department for the period 1950 to 1988 are exhibited in the figure 20.1.

In March 1989, there were 18 telecom circles and 5 telecom factories and 19 postal circles. The plan outlays and physical achievements of both Telecom and Postal Services during successive plans are given in tables 1 and 2:

THE ACCOUNTANT GENERAL

The Accountant General Posts and Telegraphs (P&T) at Simla was responsible for the accounting and audit functions of the P&T Department, and his office existed in some form or other, since 1837. The AG was assisted by DAG, one at headquar-ters, four in branch offices at Calcutta, Delhi, Madras and Nagpur for auditing the transactions of the Circles, which were under the direction and control of a Post Master General and one each in charge of P&T Stores and Workshop and Telegraph Check Offices at Calcutta. One of the senior most officers of IAAS was appointed as AG P&T, who was consulted by the Ar.GI.on important technical and administrative affairs of IAAD in the early days. At the time of independence, Shri Ishwar Dayal, who had rendered 26 years sevice in the IAAS was the AG P&T. Certain items of work of the Delhi branch office were transferred to the newly created branch office at Kapurthala in April, 1950. The total strength of the organisation in 1950 was 5655 - 11 IAAS, 40 AAOs, 213 SAS

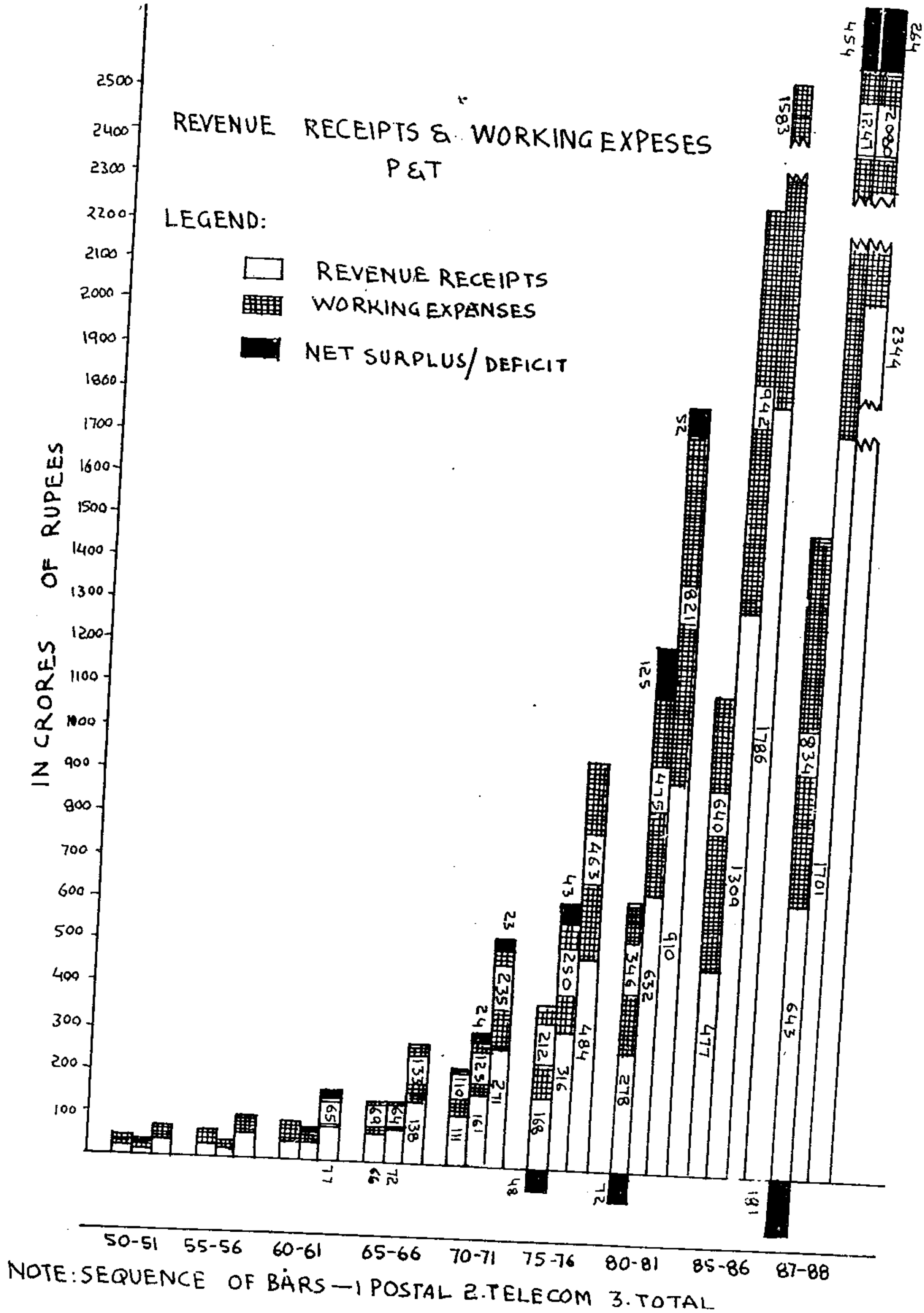


Fig. 20.1: Revenue Receipts & Working Expenses P&T

Telecom Services

Items	Unit	1st 51-56	2nd 56-61	3rd 61-66	Annual 66-69	4th 69-74	5th 74-78	Annual 78-80	6th 80-85	7th (upto 1987-88) 85-90
1	2	3	4	5	6	7	8	9	10	11
1. Plan Outlay	Rs. in Crores	47	66	164	159	415	781	519	2722	2790
2. Local Exchanges	Nos.	291	543	1337	721	1272	1527	1192	3278	2258
3. Local Exch. capacity	Lakh lines	1.16	1.74	3.59	2.61	4.44	5.40	3.19	9.17	10.23
4. Working connections (DELs)	Lakhs	0.53	1.59	3.19	1.63	4.30	4.83	2.89	8.82	9.01
5. Telephone sets	Lakhs	1.09	1.88	4.16	1.92	5.64	6.10	3.69	11.58	N.A.
6. Long Distance PCOs	Nos.	918	651	430	674	1998	3721	5100	11874	3282
7. Trunk Boards	Nos.	150	375	1098	1014	1811	1601	668	992	470
8. Trunk Automatic Exchanges (TAXs)	Nos.	-	-	-	2	2	13	1	11	16
9. Tax capacity	No. of lines	-	-	-	35000	3000	23950	9850	47220	27150
10. STD Routes	Nos.	-	1	10	7	29	71	23	76	65
11. Long distance speech channels	Nos.	353	823	3956	5604	13382	22373	11104	34927	N.A.

1		2	3	4	5	6	7	8	9	10	11
12.	Coaxial cable systems and other trunk cables	R.Kms.	-	734	5190	2371	4538	4049	2996	1659(N) 3935(A)	4085
13.	Micro wave systems	"	-	-	190	2080	2378	8627	3270	5969	4482
14.	Public Telegraph offices	Nos.	1550	1837	1803	1643	2062	5418	6552	10794	2994
15.	Telex Exchanges	Nos.	-	-	12	13	24	52	35	51	60
16.	Telex Capacity										
	(i) Local	Nos.	-	-	1600	4360	6480	7425	2150	17019	7292
	(ii) Transit lines	Nos.	-	-	-	-	-	-	-	10700	2418
17.	Telex subscribers	Nos.	-	-	995	2322	5167	6157	3342	8270	11068
18.	VFT Channels	Nos.	130	170	2799	2706	2643	5347	3462	5908	N.A.

Note : (N) : New Route Kms., (A) : Augmentation. NA : Not available.

Table 1

Postal Services

Items	Targets for 6th Plan (1980-85)	Actuals for 6th Plan (1980-85)	Targets for 7th Plan (1985-90)	Targets for 1985-86 to 1987-88	Actuals for 1985-86 to 1987-88
1. Capital Outlay (Rs. in crores)	120.17	124.58	295.00	105.49	103.59
2. Opening of New Post Offices (Nos.)	8700	6820	6000	4355	870
3. Appointment of Extra Delivery Agents (Nos.)	8750	8040	1200	1502	—
4. Installation of Letter Boxes (Nos.)	9397	12832	5000	2400	—
5. Provision of counter facilties at village post offices (Nos.)	8750	9625	4000	510	—
6. Construction of staff quarters (Nos.)	7100	4453	4000	1000	3158
7. Construction of Postal Bldgs. (Nos.)	690	532	1250	195	232
8. Railway Mail Service Vans (Nos.)	48	18	32	65	—
9. Mail Motor Service Vehicles (Nos.)	676	657	610	400	217

Table 2

accountants, 2 divisional accountants, 12 PAs, 2412 upper division clerks and selection grade clerks, 2265 lower division clerks and sorters and 700 class IV and its expenditure was Rs. 85.06 lakhs, which constituted 1.24 per cent of the total turn-over of the P&T Department. The AG was delegated with financial and administrative powers identical to the AG in the States with certain additional delegations granted by the Government of India from time to time. The accounts received from the various P&T circles as also the stores accounts of telecom factories were compiled monthly through his branch Offices located in each circle and were consolidated and sent to the Administrative Ministry concerned as also to the A.G.C.R. for incorporation in the Civil Accounts of the Union Government. The broadsheets in respect of all debt, deposit and remittance heads of account and subsidiary registers in respect of GPF, CPF and Savings Bank accounts were maintained in each office. He issued pay slips to gazetted officers, worked out and authorised the pension of the gazetted officers and non-gazetted officials, and settled through the Reserve Bank of India all transactions between the P&T Department and Railways/Defence and other Central Government Departments as also the State Governments. The Appropriation Accounts, Finance Accounts, and the Audit Report of the P&T Department were prepared by him and data/material for the Combined Finance and Revenue Accounts were furnished to the Headquarters Office/AGCR. The Central Office coordinated and controlled the various functions performed by the branch audit offices and finalised the Audit Report and Appropriation Accounts each year. The office was organised into ten sections functionally - Audit, Administration, Book and Budget, Engineering, Establishment and Record, Code, Report, Technical, Examination and Internal Test Audit.

COMPILATION OF FRS & SRS

The compilation of Fundamental Rules made by the Secretary of State in Council under Section 96(B) of the Government of India Act, 1919 and the Supplementary Rules made by the Governor General-in-Council in exercise of the power conferred upon him by the Fundamental Rules and the orders and interpretations issued by the Secretary of State, Governor General-in-Council and the audit instructions issued by the Auditor General under each rule along with the audit decisions given by the Ar. Gl, AG P&T and the instructions issued by the Director General of Posts and Telegraphs as "competent authority", brought out for the first time in 1926 by Sir A.C. Badenoch, was one of the monumental achievements of the AG P&T. The second edition issued in January, 1931 not only deleted the orders and decisions, which had been rendered obsolete by the revision of the rules themselves but also incorporated the new rules, which were shown in parenthesis along with the old rules, and a new appendix embodying the Civil Services (Classification, Control and Appeal) Rules. Shri B. Nehru issued the revised second edition in December, 1935, which was recast in a more legal and convenient sequence, in two volumes - Volume I, the Civil Services (Classification, Control and Appeal) Rules, the Fundamental Rules and the Supplementary Rules made by the Governor General-in-Council and Volume II, the appendices and forms. A third edition was brought out in 1947 by Shri S.A. Vaneswar incorporating the corrections issued upto 31st December, 1946, despite the impending Constitutional changes in the country, which held sway in the next two to three decades of post-independence administration in the Union and to some extent in certain State Governments.

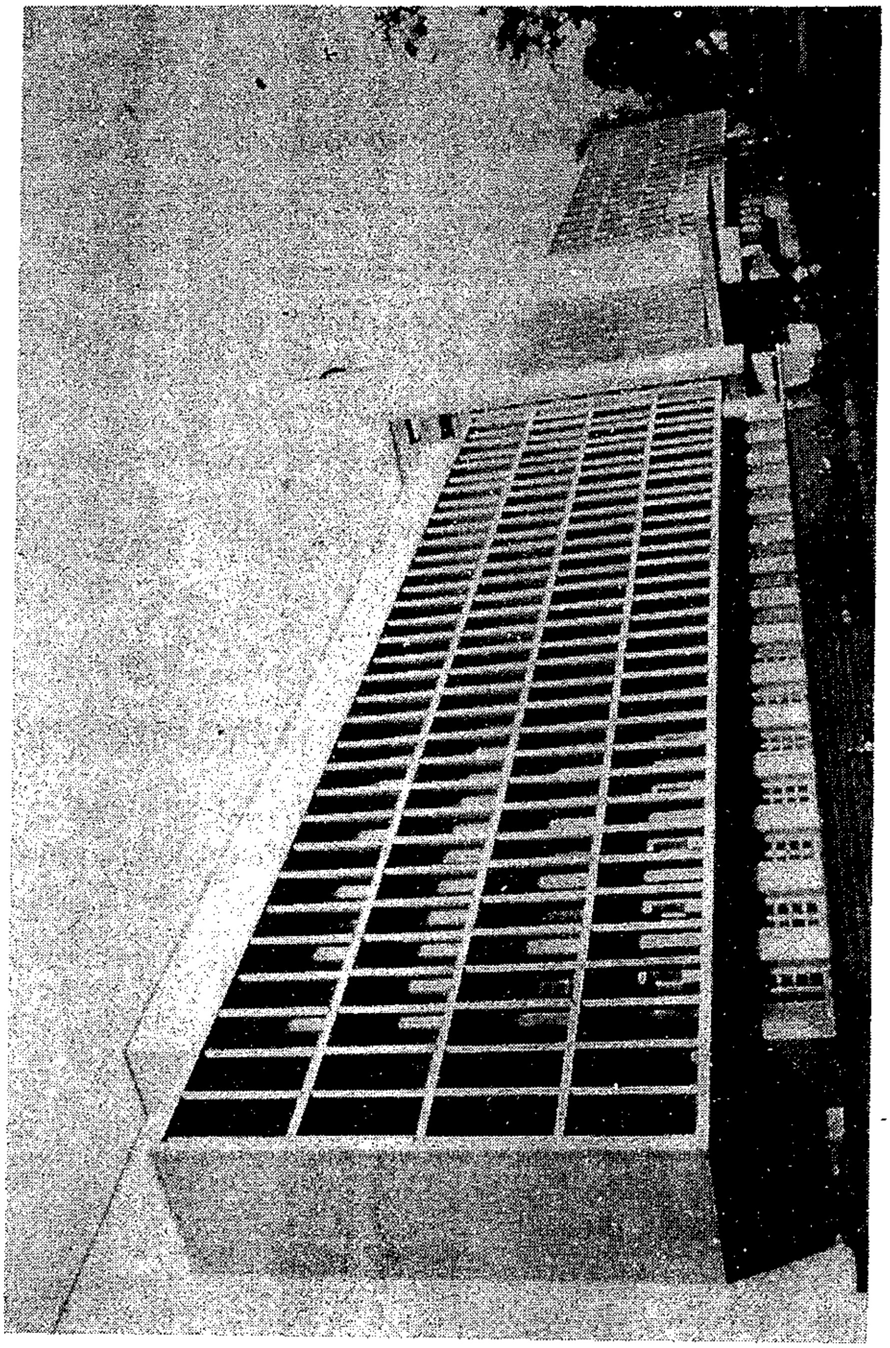


Fig. 20.2: Office of the Director of Audit P&T, Delhi

BRANCH OFFICES

The branch offices at Calcutta, Delhi, Kapurthala, Madras and Nagpur audited and compiled the accounts of head post offices, railway mail service divisions, departmental telegraph offices, telegraph engineering and radio offices and telephone districts under their jurisdiction.They were organised broadly on the following pattern :—

General audit		Technical audit		Miscellaneous	
(*i*)	Postal accounts	(*i*)	Posts and telegraphs civil wing works audit.	(*i*)	Central (Coordination)
(*ii*)	Railway mail service accounts	(*ii*)	Money orders	(*ii*)	Miscellaneous
(*iii*)	Posts and Telegraphs civil wing establishment audit	(*iii*)	British postal orders	(*iii*)	Inspections (OAD)
(*iv*)	Gazetted audit	(*iv*)	Indian postal orders	(*iv*)	Book
(*v*)	Higher audit and efficiency-cum-performance audit	(*v*)	Savings bank	(*v*)	Account current
(*vi*)	Pension	(*vi*)	Post office savings certificates	(*vi*)	Establishment and record
(*vii*)	Fund	(*vii*)	Customs duty	(*vii*)	Internal test audit
		(*viii*)	Government security		

The audit of the accounts of the departmental telegraph Offices, telegraph/telephone engineering and radio offices and telephone districts was conducted through resident audit offices and peripatetic or inspection parties. The Office of DAG, Posts and Telegraphs, Stores, Workshops, Calcutta was organised on a concurrent audit basis and audited the accounts of the telecommunication store depots/factories as also the accounts of stores and manufacturing operations of the telecommunication factories. The audit of the message revenue of the telegraph branch was conducted by the Telegraph Check Wing. The office was divided into a number of departments and sections - Central, Miscellaneous, Higher Audit, Record and Administration, and Internal Test Audit. There were resident audit parties supervised by an Audit Officer in Calcutta, Jabalpur, Bombay, Madras and New Delhi and also in the offices of the General Manager, Telecommunication Factories/ Chief Controller of Telegraph Stores, Calcutta and the Chief Accounts Officer, Telegraph Check, Calcutta. While the resident audit parties in Madras and New Delhi functioned under the administrative control of the Deputy Accountant General, Posts and Telegraphs, Madras and Delhi respectively, the technical control and guidance was provided by the Deputy Accountant General, Posts and Telegraphs, Stores, Workshops and Telegraph Check, Calcutta. The system of maintaining duplicate accounts of savings bank transactions was discontinued from 1960. Hyderabad branch Office was formed in October, 1960 by bifurcating the Madras branch office. Two offices at Calcutta *viz.* Stores and Workshops office and Telegraph Check Office were combined into a single unit in September, 1963, and there were seven offices in December, 1963. The AG P&T moved to Delhi in 1969. The total strength of the organisation in 1969 was 7928 - 23 IAAS, 102 AOs, 529 SAS accountants, 29 divisional accountants, 32 personal assistants, 3980 selection grade clerks and upper division clerks, 2129 lower division clerks, 495 sorters and 609 class IV and its expenditure was Rs. 315.79 lakhs in 1969-70, which worked out to 0.72 per cent of the total turnover of the P&T Department.

DEPARTMENTALISATION OF ACCOUNTS

The accounts of the telecommunication Wing were taken over by the executive department in a phased manner during April 1968 to March, 1971. Seven new Circle-wise offices were set up - three in November-December, 1969 at Jaipur (bifurcated from Nagpur office), Trivandrum (bifurcated from Madras office) and Cuttack (bifurcated from Calcutta office) and four in July, 1971 at Bangalore (bifurcated from Madras office), Bhopal (bifurcated from Nagpur office), Lucknow (bifurcated from Delhi office) and Patna (bifurcated from Calcutta office). The audit of Indian Telephone Industries, Bangalore with units at Naini, Rae Bareli, Srinagar and Palghat, Hindustan Teleprinters Ltd., Madras and Hindustan Cables Ltd., Calcutta with units at Rupnarainpur and Hyderabad and Telecommunication Consultants India Limited, New Delhi was entrusted to the AG P&T in 1973. The nature and scope of audit was efficiency-cum-propriety audit, as in vogue in government companies. In March, 1976 there were 14 branch offices with an aggregate strength of 9668 (working strength 9216) and the expenditure of the P&T Audit Department was Rs. 837.58 lakhs, which worked out to 0.89 per cent of the turnover of the P&T Department.

The accounting functions were transferred to the Posts and Telegraphs Department along with the officers and staff in April 1976.

The allocation of staff for transfer was made on "slab and slice method" and the actual transfer was effected in such a way as to avoid any surplus being left in the Audit Organisation. The class III and class IV staff were accommodated within the audit jurisdiction of the respective branch offices. In all, 7664 persons (79.3%) were transferred, comprising 96 AOs (44%), 441 S.Os (51%), 3740 auditors (80%), 21 stenographers (37%), 2091 clerks (89%), 11 divisional accountants, 582 sorters (both 100%) and 682 class IV (73%). The expenditure incurred on transferred staff in 1975-76 was Rs. 5.79 crores. The residuary officers and staff left with the Posts and Telegraphs Audit Department was 2015 - 11 IAAS, 122 AOs, 410 SOs, 35 stenographers, 931 auditors and selection grade auditors, 259 clerks and 247 class IV and Shri C.S. Swaminathan continued as AG P&T. The expenditure incurred by the exclusive audit office was Rs. 255.64 lakhs in 1976-77, which constituted 0.23 per cent of the total turnover of the P&T Organisation audited by AG P&T.

In the post-independence era, 21 officers held the office of AG P&T for tenures ranging from 16 days to 3 years, 8 months and 17 days (held by Shri R.K. Khanna). The designation of AG P&T, which had been in vogue for nearly three quarters of a century, was changed to Director of Audit, Posts and Telegraphs in 1979 and Shri S. R. Subrahmanyan was the first Director. Consequently, the designation of the head of the branch offices was modified to Joint Director of Audit/Deputy Director of Audit. Two new branch offices were formed at Ahmedabad and Bombay in March, 1981. 14 officers held the office of DA P&T, whose tenures ranged from 2 months and 1 day to 3 years, 3 months and 24 days (held by Shri S.R. Subrahmanyan).

With the restructuring of cadres in the IA & AD from 1st March 1984 and consequent changes in the status, composition and pay scales of line functionaries, redevolution of duties of the members of P&T Audit party was made and based on the actual work done and memos issued/replies received, each one of them was required to submit separate report in the form of material for consolidation and inclusion in the Inspection Reports. The impact of restructuring in the P&T Audit organisation was felt in the composition of the various cadres. The strength excluding IA & AS officers on 1 March, 1984 was AOs 149, AAOs 290, SOs 109, Senior Auditors 735, Auditors 185, Stenos 56, Clerks 241, Record Keepers 35, Group D 205 and others 5 - totalling 2010. Figure 20.3 gives the organisation.

The disposition of officers and staff in the P&T Audit Department in March 1988 was as in table 3.

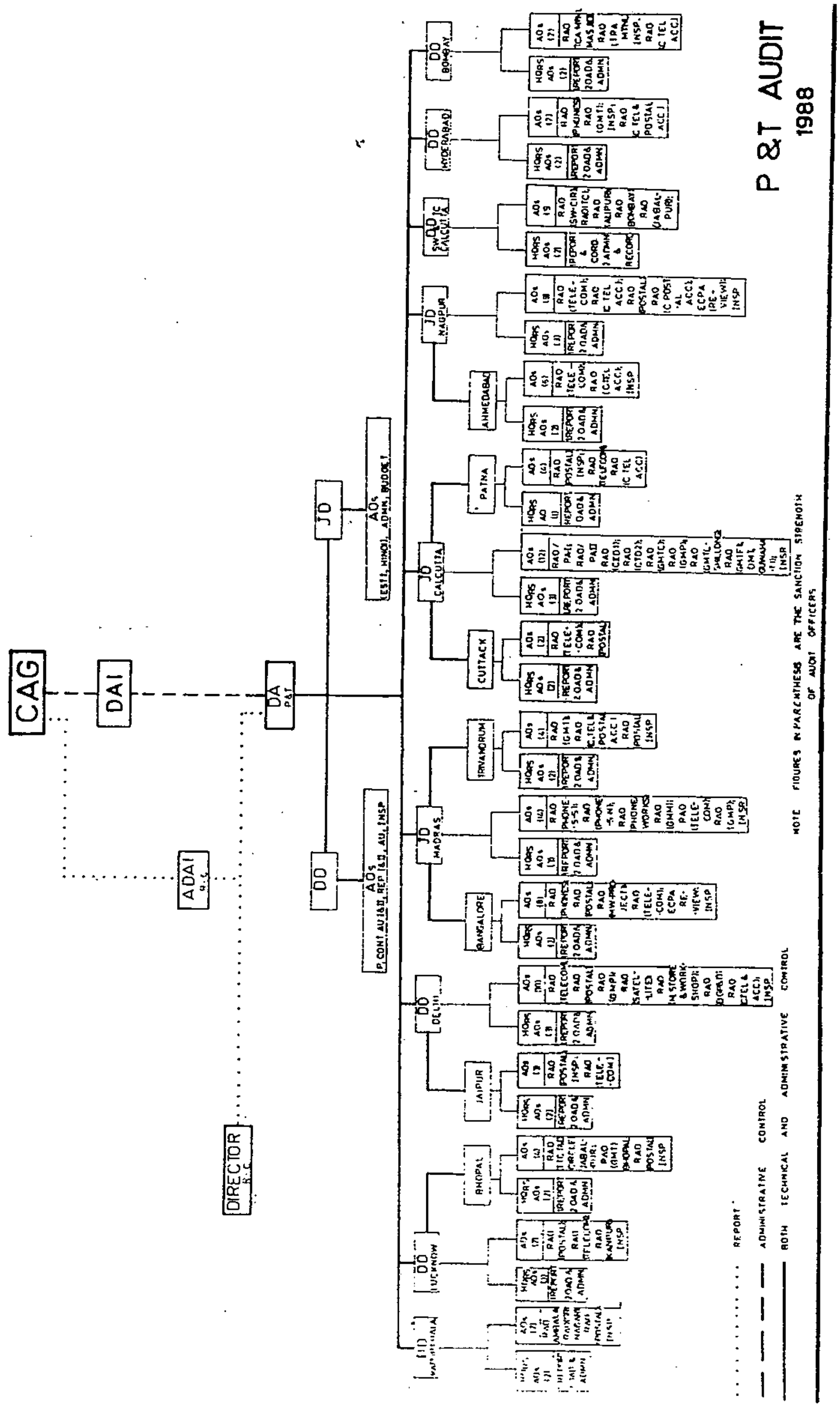


Fig. 20.3: P&T Audit 1988

Name of the Unit	IA& AS Officers	AOs	AAOs /Sos	Auditors and S.G. Auditors	Stenographers	Clerks/ Record Keepers	Others	Total
Ahmedabad	-	6	8	23	3	8	11	59
Bombay	1	7	19	27	3	10	12	79
Bangalore	-	10	23	48	3	13	10	107
Bhopal	-	6	15	39	2	9	10	81
Calcutta	1	15	47	86	6	26	26	207
Cuttack	-	4	11	26	1	7	7	56
Delhi	1	13	31	69	5	20	16	155
Hyderabad	1	9	30	47	4	16	9	116
Jaipur	-	5	12	34	1	11	10	73
Kapurthala	1	9	30	47	3	16	9	115
Lucknow	1	10	27	55	3	11	12	119
Madras	2	18	42	93	5	24	19	203
Nagpur	1	16	48	73	4	21	10	173
Patna	-	5	10	33	2	10	11	71
SWTC, Calcutta	1	7	25	150	3	41	24	251
Trivandrum	-	6	21	41	3	9	9	89
Central Office	4	10	25	54	5	25	17	140
Total	14	156	424	945	56	277	222	2094

Table 3

The expenditure incurred in 1987-88 was Rs. 550.12 lakhs, which constituted 0.12 per cent of the turnover of the P&T organisation. The Finance and Accounts department of the organisation incurred expenditure of Rs. 2857.04 lakhs, which worked out to 0.65 per cent of the total turnover of the organisation. The expenditure of the separated offices was more than the expenditure incurred by the combined audit and accounts organisation, even after giving allowance to the increase in accretion to officers and staff and their emoluments in the succeeding decade.

GROWTH OF AUDIT

After the introduction of cent percent pre-payment check as well as inspection of accounts of engineering units in the telecommunication wing and system of internal audit check and local audit inspection in the circle postal accounts offices, the central audit was abolished and concurrent audit in the circle postal and telecom accounts offices was introduced, in addition to local audit/inspection. A sizeable portion of the establishment - 456 (40 AOs, 93 SOs and 323 auditors) was employed on concurrent audit in circle postal accounts offices and circle telecom accounts units. The head of each branch audit office arranged for inspection and local audit of the accounts of all P&T offices under his jurisdiction by grouping them in accordance with prescribed periodicity under the following five categories :—

(*i*) Post Master General - Postal stock depot, Mail motor service, Foreign post, postal life insurance, Airmail exchange, Savings bank pair units, Forms and seals, Aligarh, Telephone directory authorised advertising agents, P&T dispensary, P&T training centre, P&T welfare fund, Sports Control Board and Salarjung Museum, Hyderabad;

(*ii*) Telegraph, Telephone engineering divisions including telephone revenue accounts along with inspection of one sub-division, Telephone districts, Civil engineering divisions, Electrical divisions and Civil Minor Works divisions;

(*iii*) Head post offices (including one sub-post office) SB, SBCO, CTD, SSPO/SPO, RMS, SSRM and SRM at the same station; Central telegraph offices; Departmental telegraph offices;

(*iv*) Pay and Accounts offices and

(*v*) Circle telecom accounts office, including general manager (telecommunications).

Audit of works expenditure and receipts was intensified and deepened. A regular and systematic approach was adopted for reviewing schemes/projects, major construction works, working of telephone districts, depots, etc., and the performance was monitored and reviewed from time to time. The quantum of audit, its duration, periodicity of inspection and composition of parties were modified and the items of checks to be carried out by the audit officers/section officers - both during local audit/inspection and concurrent audit - were amplified. Bulk of the paras and reviews for Audit Reports were contributed by OAD. The audit of four government companies *viz.* Indian Telephone Industries Ltd., Hindustan Teleprinters Ltd., Hindustan Cables Ltd. and Telecommunication Consultants (India) Ltd., was transferred to Commercial Audit Wing in April 1981 but the staff employed on the work continued to function under the DCA concerned until they were replaced by commercial audit personnel. In the case of the Mahanagar Telephone Nigam Limited and Videsh Sanchar Nigam Limited, both the procedure and methodology of audit were mostly oriented towards efficiency-cum-propriety audit. While Mahanagar Telephone Nigam Limited, Delhi and Bombay were audited by the Deputy Directors, Delhi and Bombay respectively, the corporate office was audited by the Deputy Director, Delhi. The scope, coverage and nature of audit were identical to Commercial audit of government companies. Besides checking of annual accounts as also the consolidated accounts of the company, scrutiny of agenda and minutes of the meetings of the board of directors and examination of budgets and quarterly progress reports, financial and other reports submitted to the Bureau of Public Enterprises, etc. was carried out by the resident audit officer attached to the office of the General Manager, Telephones, who was also accredited to the corporate office. The accounts of the Bombay unit duly checked by the Bombay branch audit office were sent to the Delhi branch audit office for consolidation of comments and proposing draft audit comments on the accounts of the Company for the purpose of certification. Similarly, in the case of the Videsh Sanchar Nigam Limited, the propriety audit of the units of the company at Bombay, Madras and Calcutta including corporate office, Delhi, was conducted by the designated branch audit offices. While the quantum and the periodicity of audit for various categories of transactions continued to be the same as in the past, the branch audit office concerned checked in addition the monthly trial balance forwarded by the area office/regional office of these two companies to the corporate office. The coverage of inspection/local audit was 1035 (1984-85), 1167 (1985-86) and 1182 (1986-87) units. The turn over of objections raised, settled and pending for five years was as under :—

Year	Opening Balance		Additions		Clearance		Closing Balance	
	I.Rs	Paras	I.Rs	Paras	I.Rs.	Paras	I.Rs.	Paras
1983-84	4159	31615	257	3876	826	13230	3590	22261
1984-85	3590	22261	986	5850	1235	9402	3341	18709
1985-86	3341	18709	1063	6762	1259	8180	3145	17291
1986-87	3145	17291	1265	6681	874	7208	3536	16764
1987-88	3536	16764	1175	6894	1052	6474	3659	17184

The earliest pending reports/paras related to the year 1975-76. Neither the efficiency of separate accounting organisation nor the effectiveness of internal audit has made any impact on the quantum of statutory audit objections or their disposal.

DEPARTMENTAL MANUALS

The P&T Audit Department used the following manuals from time to time :

(*i*)	M.S.O. of A.G.P&T	—II Edition 1936
(*ii*)	M.O.P. of A.G. P&T	—I Edition 1937
(*iii*)	P&T Audit Code	—Volume I 1938 Edition
		—Volume II 1938 Edition
		—Volume III 1938 Edition
		—Volume IV 1938 Edition
(*iv*)	P&T Audit Manual	—Volume III (Provisional Issue)
(*v*)	Pension Audit Manual	—1st edition 1941

(*vi*) Manual of Instructions for the guidance of the staff employed in the office of the A.G., P&T (Postal Insurance Section) 1923 Edition.

(*vii*) Manual of Appointments & Allowances of the Offices of the Indian Posts & Telegraphs Department - IInd edition

After the Constitution came into force, the M.S.O. of A.G., P&T was revised two times, once in 1954, when a Second Edition (Reprint) was brought out and again in 1973, when a Third Edition was brought out. Manual of Office Procedure was revised on two occasions by bringing out a Second Edition in 1954 and a Reprint of Second Edition in 1967. P&T Audit Code was replaced by P&T Audit Manuals :

Volume I	General Audit Manual	I Edition 1954 I Edition (Reprint) 1972
Volume II	Technical Audit Manual	I Edition 1954
Volume III	-do-	I Edition 1957
Volume IV	Message Revenue Audit Manual (Parts I & II)	I Edition 1957
Volume V	Inspection	I Edition 1950 I Edition (Reprint) 1971

Pension Audit Manual was revised in 1954, when a second Edition was brought out. The Third and Fourth Editions of the Manual of Appointments and Allowances of the Office of the Indian Posts & Telegraphs Department were brought out in 1952 and 1973 respectively. Three Editions of the Memorandum of Instructions regarding the Extent of Audit in Posts and Telegraphs Audit Offices were issued in 1952, 1966 and 1974.

At present, the M.S.O. of A.G. P&T (III Edition 1973), M.O.P. of AG. P&T (II Edition 1967, Reprint), P&T Audit Manuals-Volume I General Audit Manual [I Edition (Reprint) 1972], Volume II Tech. Audit Manual (I Edition 1954), Volume III Technical Audit Manual (I Edition 1957), Volume IV Message Revenue (I Edition 1957), Audit Manual (Parts I & II), Volume V Inspection [I Edition (Reprint 1971)], Pension Audit Manual (Second Edition 1954), Secret Memorandum of Instructions regarding extent of Audit in P&T Audit Offices (Third Edition 1974) are in use.

Further revision of manuals after the transfer of accounting functions to the P&T Department, creation of exclusive Audit Offices, restructuring of cadres and enlargement of the duties and functions of the officers and staff in various cadres in the P&T audit organisation - *i.e.* to incorporate the changes in duties, functions, systems and procedures etc. for nearly 14 years - remains to be carried out.

ACCOUNTS AND REPORTS

The Accounts and Audit Report of each year were published in one single compilation, except for the year 1947-48, when a memorandum of important financial irregularities was prepared due to dislocation of staff and records after partition, which incorporated the financial review of the working of the Indian Posts and Telegraphs Department by the Director General of P&T, followed by Part I - Audit Report and Part II - Appropriation Accounts. The financial review contained the financial results of the working of the Indian Posts and Telegraphs Department compared with the estimates of the year and actuals of the previous year, review of revenue and expenditure and capital outlay under different headings - duly supported by detailed statements in the form of annexures and the audit certificate recorded by the AG. Audit Report incorporated the audit comments, grouped under broad headings, namely, general review of the results of audit, results of appropriation audit, comments on grants, control of expenditure, unanticipated credits, financial irregularities, losses etc., audit of receipts, remission of revenue and other topics of interest. The Appropriation Accounts contained a grand summary of grants and appropriation of all major heads of account relating to Posts and Telegraphs along with the certificate of examination of the accounts by the CAG followed by detailed appropriation accounts of each grant, statements of expenditure and details of stores suspense and manufacture suspense accounts, supported by detailed annexures. The subject headings of Audit Report were more or less continued year after year, except for slight modifications or new additions warranted by findings in audit. Format and content of

Appropriation Accounts were also continued except for minor additions necessitated by new transactions. The number of annexures increased from 5 in 1949 to 10 with corresponding increase in the headings under review of capital outlay.

DEVELOPMENTS IN REPORTING

The Audit Report and Appropriation Accounts were published as separate compilations from the accounting year 1960-61. There were seven chapters in the Audit Report arranged according to topics. Chapter I dealt with certain points of interest arising out of the Director General's financial review on the Accounts; Chapter II embodied comments on the Appropriation Accounts with particular reference to the efficiency of budgeting and control over expenditure; Chapter III contained paras on revenues, Chapter IV covered stores purchases and control; Chapter V dealt with work-shops; Chapter VI mentioned financial irregularities, losses etc. noticed in the audit of expenditure relating to works; and Chapter VII related to other topics of interest. Slight modifications of chapters or headings of topics were made in each year's Report. The Appropriation Accounts contained seven headings, *viz.* grand summary of appropriation accounts of grant relating to expenditure met from revenue of the Indian Posts and Telegraphs Department, appropriation accounts of grant relating to P&T dividend to general revenues and appropriations to reserve funds, appropriation accounts relating to capital outlay on Indian Posts and Telegraphs (not met from Revenue), financial review of the Indian Posts and Telegraphs Department by the Director General, P&T, financial review and accounts of the PLI prepared by the Director, PLI and statement showing grant-wise details of recoveries adjusted in reduction of expenditure in the accounts. They were presented by group heads and exhibited the saving and excess for each group head in the grant. The format was changed from 1961-62 and the Accounts exhibited only the total grant/appropriation, actual expenditure and saving/excess for the grant/appropriation as a whole with explanatory notes of important cases of variations, which called for comments, giving relevant particulars about the group heads in which they occurred. The Appropriation Accounts were prepared from April 1976 by the combined Department of Posts and Telegraphs till 1984-85, when separate Accounts were prepared by the Department of Telecommunications. These were checked and verified in Audit. While the average time taken by the AG for finalisation of Appropriation Accounts each year was around 11 months and 20 days, the average time lead in finalisation of Accounts by the Department of P&T was 12 months and 3 days. Audit Reports were prepared in two parts from 1985-86 onwards, Part I - Department of Telecommunications and Part - II Department of Posts. The audit comments relating to the Department of Telecommunications were arranged under seven broad sections, *viz.* general, appropriation audit and control of expenditure, revenue, projects and works, stores purchase and control, land and buildings and other topics. The comments relating to the Department of Posts were arranged under three broad sections, *viz.* general, appropriation audit and control of expenditure and nugatory expenditure. An overview containing salient features of more important audit observations was included from the Audit Report 1986-87 (No. 4 of 1988).

AUDIT REPORTS

The Audit Reports for the years 1948 to 1954 were finalised during 30 to 20 months after the close of the financial year, the average time taken for finalisation of each year's Report being about 25 months. Reports for the years 1955 to 1957 were finalised in two phases, Part-I and Part II with a view to advance the date of presentation of the regular Report without waiting for the Appropriation Accounts, in accordance with the decision of the Public Accounts Committee in 1952-53. Audit Reports were finalised between 10 to 15 months and Accounts between 17 to 22 months after the close of the financial year and Part II was finalised 22 months after the close of the financial year. Part I of 1956 Report was finalised 15 months after the close of the financial year. Part I of 1957 Report was finalised 13 months after the close of the financial year and Part II - 17 months after the close of the financial year. The Report for 1958 was finalised 20 months after the close of the financial year. Reports for the years 1960-66 were finalised in a time span of 11 to 12 months after the close of the financial year. In the next six years (1967 to 72), except for 1968 and 1969-70 Reports, which were finalised after 12 months, other years' Reports were issued within 10 to 11 months after the close of the financial year. Reports 1971-72 to 1976-77 were finalised within an average time lead of 12 months after the close of the financial year. During the period 1977-78 to 1982-83, Reports were finalised within 13 months (1977-78 Report) to 9 months (1981-82 Report) after the financial year. But the Accounts were finalised by the departmental authorities, 13 months (1977-78 Accounts) to 11 months after the close of the financial year. While the Report for 1983-84 was finalised in 9 months, the Accounts were finalised by the P&T Department after 11 months and 18 days of the expiry of the financial year. The Report 1984-85 was finalised after 12 months and 26 days and the Accounts 13 months after the close of the financial year. 1985-86 Report and the Accounts were finalised 12 months after the close of the financial year. While the finalisation of Report 1986-87 took 10 months, the Accounts took 11 months after the close of the financial year. The average time taken for finalisation of Accounts was 12 months. The performance in finalisation of Accounts by the P&T Department belied the expectation of avowed objective of speedy compilation envisaged at the time of departmentalisation of accounts. In all, 22 years' Reports were presented to the Parliament during the Budget Session of the following year, of which 11 Reports were presented before the discussion on the Budget commenced in the Parliament and the remaining 11 were available to the Members of Parliament before the completion of the discussion on the Budget of the year concerned.

CONTENTS

The contents of the Reports - as reflected in the number of pages, chapters and paras - progressively changed from 16 pages and 28 paras in 1949 Report to 155 pages and 67 paras in 1987-88 Report. The chapters increased to three (1956), five (1960), eight (1962) and twelve (1986-87). While the average number of pages was 26 and paras 28 in the Reports issued during 1949 to 1975, they increased to 82 pages and 40 paras in the next decade. Reviews were included for the first time in the Report 1980-81, namely Projects for installation of three telephone exchanges at Railwaypura at Ahmedabad, Scheme of Bombay Pune Wide Band (Microwave link and Bombay - Pune T.V. relay link) and Panjim Ultra High Frequency Scheme, which was signed by Shri P.K. Ganapathi. Report 1981-82, which was signed by Shri L.P. Khanna contained five reviews - Delay in the installation of continuous channel testing bays and their unsatisfactory performance, Installation of 2000 line cross bar exchange at Secundarabad, Kolhapur Multiple Auto Exchange (MAX-I), Installation of 20,000 line cross bar exchange at Malabar Hill and Vadodara Telephone System. Reports 1982-83 and 1984-85 contained four reviews each; the former Report signed by Shri M. Prem Kumar included reviews on Delhi Telephones, providing telecommunication facilities for Asiad, telephone exchange, Tretta Bazaar, Calcutta and delays in implementation of a project, Madras-Rameswaram (18 pages and 16 paras) and the latter Report signed by Shri R. Kumar, included reviews on New Delhi - Ambala Coaxial expansion scheme, Lucknow - Asansol - Calcutta Microwave scheme, Poona - Dhulva Large Tube Coaxial cable scheme and working of Calcutta Telephones. The Audit Report 1983-84 contained three reviews - working of Madras Telephone District, review of Bombay Telephones and New Delhi - Bareilly - Lucknow 12 MHZ - coaxial expansion scheme, 16 pages and 19 paras.

Seven reviews were included in 1985-86 Report, signed by Shri V.S. Bhardwaj, namely, Kharagpur - Madras Wide Band Microwave Scheme, Calcutta - North Bengal - Assam Wide Band Microwave Scheme, Coimbatore - Salem 12 MHZ Coaxial Scheme, Jullundur - Srinagar Microwave Expansion Scheme, Nagpur - Bangalore Wide Band Microwave Scheme, Bombay Trunk Automatic Exchange and Madras - Poona Second Coaxial Cable Scheme - 20 pages and 46 paras. Report 1986-87 signed by Shri S.C. Singhal included 12 reviews *viz.* Modernisation of Galvanisation Plants, Mobile Radio Telephone system, Telecom Projects in Textile Market Building, Surat, Trunk Automatic Exchange at Calcutta, Aurangabad-Nanded 2.6 MHZ Coaxial Cable Scheme, Kozhikode - Trichur and Kozhikode Palghat Coaxial Cable Scheme, SPC Electronic Exchange at Salt Lake, Calcutta, Pune Telephones, Kanpur Telephones, Allahabad Telephones, Mail Motor Services and Postal Stores, Forms and Seals at Aligarh (42 pages and 93 paras). The presence of reviews in Reports varied from 18 to 32 per cent, the average being around 25 per cent; in terms of number of paras it varied from 8 to 21 per cent.

LATEST TRENDS

The Report 1986-87* contained 57 paras in 12 chapters, 11 paras on Department of Posts and 46 paras on Department of Telecommunications. In the Department of Posts, the five year period ended March, 1987 witnessed a gap of Rs. 132.46 crores between the revenues (Rs. 179.47 crores) and expenses (311.93 crores). Persistent savings ranged from 34 to 83 per cent under 'Mechanisation and Modernisation' during 1984-87. Utilisation of the fleet strength of Mail Motor Service (MMS) in 12 stations varied from 48 to 92 per cent during 1984-87 and the average kilometres covered per vehicle per day ranged between 48 and 99 kms. against the prescribed 100 kms. per vehicle per day. Extra expenditure incurred was Rs. 11.96 lakhs on fuel due to low kilometrage per litre, as compared to the norm and Rs. 29.30 lakhs on 6.4 lakhs dead kilometres covered by the vehicles. Non-recovery of gunny bags from customer departments necessitated purchase of new gunny bags for Rs. 9.23 lakhs and the Postal Seals, Forms and Stores at Aligarh could not recover Rs. 1.84 lakhs for work done for other Governments/ Departments due to non-maintenance of proper records. Avoidable expenditure of Rs. 27.77 lakhs was incurred due to non-revision of the rent of the hired building at Bombay in time. A specially designed

* No. 4 of 1989 finalised on 2nd February, 1988 and presented to Parliament on 29th March, 1988.

building built at a cost of Rs. 2.38 lakhs for washing the postal bags could not be utilised due to non-installation of a washing plant, which was used as forms' stores. Avoidable expenditure of Rs. 1.76 lakhs was incurred towards wharfage. Irregular interest was paid on savings by two officers in contravention of Savings Bank Rules.

In the Department of Telecommunications, Rs. 55.87 crores in respect of telephone bills issued upto 31st March, 1987 were due to be collected in July, 1987 and Rs. 14.25 crores on account of rent of telegraph, telephone and teleprinter circuits and telex/intelex charges for bills issued upto 31st December, 1986 were due to be collected in March, 1987. Test check revealed short stock/non-recovery in 6240 cases involving Rs. 3.42 crores. In Calcutta Trunk Automatic Exchange there was a shortfall of revenue of Rs. 43.57 crores in 1984 and Rs. 31.63 crores in 1985, as compared to the estimated revenue, and actual calls failure ranged between 86 and 88 per cent during the 3 years (1984-87) compared to permissible 40 per cent. The operating efficiency of telephone systems at Allahabad, Kanpur and Pune was generally below the targets, resulting in poor service to the subscribers and loss of substantial potential revenue. Shortfall of revenue in Direct Exchange Line per month in Kanpur and Pune Telephones was Rs. 11.38 crores during 1981-86. Quantum of ineffective trunk calls was high, which deprived the department of potential revenue of Rs. 2.75 crores. Spare capacity available in Allahabad and Pune Telephones was not utilised, despite waiting lists, which denied the intending subscribers of service and deprived the department of revenue of Rs. 1.16 crores. A test check of 51 projects/schemes executed disclosed abnormal delay in supply of exchange equipment by Indian Telephone Industries ranging from 4 to 76 months in 22 cases due to lack of effective coordination and absence of any clause for liquidated damages in the agreement with ITI upto March, 1986. Non-commissioning of two imported plants for replacement of old galvanising plants at Calcutta and Jabalpur between January, 1983 and March, 1984 deprived the department of the expected savings in Zinc consumption of Rs. 5.34 crores, Rs. 0.25 crore per annum due to reduction in dross formation and Rs. 0.15 crore per annum on operational cost. Under-utilisation of land in Bombay for wireless expansion and large-scale encroachments and avoidable expenditure of Rs. 1.50 crores on lease rent was reported. Due to under-utilisation of connectable capacity of Moradabad, Jammu and Jadavpur telephone exchanges, potential revenue of Rs. 0.62 crores was lost. Supply of sub-standard paper caused loss of Rs. 0.27 crores. Construction of a telecom building at Textile Market at Surat caused an extra expenditure of Rs. 0.04 crore and avoidable expenditure of Rs. 0.08 crore.

THE REPORT 1987-88*

The Report contained 67 paras including 10 reviews (11 chapters covering 155 pages) and 23 paras including 5 reviews did not incorporate replies of the Department/Ministry. Neither the quantum of the audit paras and reviews in this year's or earlier years' Reports nor the responsiveness of the P&T Department/Ministry of Communications to the audit paras and reviews in the Audit Reports reflected the effectiveness and efficiency of the integrated finance and accounting arrangements, including separate internal audit as claimed at the time of departmentalisation of accounts. During the five years ended 1987-88, revenue increased by Rs. 208.44 crores in the Department of Posts and expenditure Rs. 326.08 crores and the deficit Rs. 117.64 crores. Against the grant of Rs. 3039 crores, the Department of Telecommunications incurred an expenditure of Rs. 3018 crores and the revenue realisation was Rs. 1709 crores.

Review of Mail Operations brought out results of test reports of 21 State capitals, which disclosed that more than 50 per cent of the test letters were not delivered as per norms, indicative of functional deficiencies. As against maximum rate of 1.8 for handling a letter in sorting office, the actual rate was 2.01 to 3.38 causing delay in delivery of the mails, dis-satisfaction of the general public and increase in operating costs. Mushroom growth of private courier agencies for transmitting the mails not only infringed upon the monopoly of the department, but also caused substantial loss of revenue. Non-surrender of surplus accommodation in running trains caused haulage charges amounting to Rs. 115.21 crores upto March 1988 in two circles and excess payment made in other circles remained to be assessed.

Premature vacation and demolition of a building led to an avoidable expenditure of Rs. 4.61 lakhs towards rent of a hired building from September 1982 to July 1986. Frauds involving Rs. 3.59 lakhs in 8 cases occurred due to failure to conduct the prescribed checks by the departmental officials and non-settlement of discrepancies of unsold certificates. Avoidable expenditure of Rs. 4.02 lakhs was incurred due to delay in processing the offer for acquisition of land and building. Rupees 50.53 crores were outstanding on 1st July, 1988 on account of telephone bills. Arrears on account of rent of telegraph, telephone and teleprinter circuits increased from Rs. 9.50 crores in March 1986 to Rs. 15.54 crores in March 1988.

* No. 4 of 1989 finalised on 6th February, 1989 and presented to Parliament on 4th May, 1989.

Test check in audit revealed short/non-billing in as many as 1182 cases amounting to Rs. 4.25 crores during 1987-88. Delay of 4 to 18 years in fixation of rates of rentals in respect of lines and wires leased to Railways delayed realisation of rent amounting to Rs. 27.78 crores and consequential loss of interest of Rs. 14.66 crores. In the case of long distance telex connection to a company, rent was charged as for the short distance resulting in an under-recovery of Rs. 2.12 lakhs.

Internal check organisation of Telecommunications did not have norms for providing staff and did not conduct performance review to spot out slippages for taking corrective action. Schemes and projects were not checked from economy, cost effectiveness and performance angles. There were delays in settlement of internal check objections; the irregularities persisted and the monitoring system was ineffective. The officials were not trained for upgrading their knowledge and skills and the large number of cases of short/non-billing noticed during test-check was an index to the adequacy of the internal check.

The operating efficiency of telephone systems at Hyderabad and Surat was generally below the targets resulting in not only poor service to the subscribers but also in loss of substantial potential revenue. Percentage of ineffective trunk calls was high resulting in potential loss of revenue of Rs. 71 lakhs. In Hyderabad Telephones, cables were laid in excess of the prescribed norms resulting in avoidable additional investment of Rs. 17.24 crores.

The microwave link between Cuttack and Sambalpur, a vital link in Orissa telecommunications net work, sanctioned in July 1971 and scheduled to be commissioned by July 1977 was actually commissioned in February 1988. The delay of more than 10 years in commissioning of the system resulted in loss of potential revenue of Rs. 45.36 lakhs till January 1988. Change in the specification of the equipment from 6 GHz to 4 GHz rendered the performance of the system unreliable, which was proposed to be scrapped and replaced by a 6 GHz digital system.

Ambikapur-Bilaspur and Raipur Jagdalpur Narrow and Microwave Project sanctioned in January 1979 on priority basis scheduled to be completed by March 1983 could not be commissioned fully even by March 1988, despite 167 per cent increase in the estimate and expenditure, which resulted in potential loss of revenue of Rs. 47.56 lakhs upto January 1988.

Ahmedabad-Palanpur coaxial cable scheme (cost Rs. 448.99 crores) expected to be commissioned by 1981-82 was delayed by more than five years, which caused loss of not only Rs. 565.59 lakhs of potential revenue but also inconvenienced the subscribers. The cost overrun was Rs. 432.72 lakhs due to delay in commissioning. The scheme for installation of a 2.6

MHz coaxial cable system connecting Bhopal, Hoshangabad and Itarsi to be commissioned in 1981-82 was actually commissioned in phases during May 1986 to January 1987 only and the anticipated revenue of Rs. 561.62 lakhs could not be realised. Five per cent of the system could only be utilised by April, 1988 and the loss of STD revenue during January 1987 to March, 1988 was Rs. 138.89 lakhs. Installation of a 2.6 MHz coaxial cable system on Amalapuram-Ravulapalem-Mandapetta route and a 12 MHz coaxial cable system on Rajamundry-Tadepalligudem route sanctioned in September, 1980 and scheduled to be commissioned by March, 1985 were actually commissioned in June, 1986 and January, 1988 respectively at a cost of Rs. 696.63 lakhs *i.e.*, 148 per cent over the revised cost. The system was grossly under-utilised even after two years of commissioning. The actual traffic handled was far below the anticipated traffic resulting in shortfall of revenue of Rs. 18.71 lakhs.

Extra expenditure of Rs. 27.79 lakhs was caused due to delay in finalisation of tenders within validity period for construction of super-structure of building. Nine floors of the 17 storeyed building constructed at a cost of Rs. 417.78 lakhs remained vacant since August 1985 due to non-compliance of certain statutory requirements but the department continued to pay rent for its administrative offices at the rate of Rs. 2.38 lakhs per annum. Loss due to wastage of paper in printing telephone directories of Delhi and Bangalore Telephones was Rs. 8.51 lakhs. Non-utilisation/non-working of 70 electronic air cleaners procured at a cost of Rs. 13.24 lakhs for freshening intake air of air-conditioning plants in the exchanges and installed after incurring an expenditure of Rs. 1.40 lakhs blocked the capital and became unproductive investment. While 6.5 acres of land procured in Delhi at a cost of Rs. 9.73 lakhs for construction of staff quarters remained unutilised for 18 years, an expen-diture of Rs. 11.76 lakhs per annum was incurred on house rent allowance. In Nellore Telecommunications division, 77 works involving Rs. 77.59 lakhs were executed during 1974-75 to 1983-84 without sanction of estimates. Avoidable payment of octroi from August 1978 to October 1986 amounted to Rs. 42.81 lakhs. Excess payment of customs duty amounting Rs. 56.78 crores on import of pulse code modulation systems and telephone exchange equipments was made. Tax equipments worth Rs. 135.61 lakhs were lying dumped at Srinagar since June 1982 due to injudicious planning and lack of coordination in different wings of the department. Microwave tower at Bikaner collapsed due to lack of proper supervision and check by department resulting in loss of revenue of Rs. 28.16 lakhs per annum. Insurance claims for Rs. 3.91 lakhs on exported equipments found damaged were not preferred. The claim for Rs. 3.36 lakhs was not processed properly. Avoidable expenditure of Rs. 9.49 lakhs was caused due to delay in finalising tenders for construction of super-structure of a telephone exchange building at Worli, Bombay. The Autrax system set-up at a huge expenditure of Rs. 134.42 lakhs did not achieve the desired objectives. Extra expenditure of Rs. 5.76 lakhs was incurred on procurement of connecting equipment for C-400 Cross Bar Exchanges. Delay in installation of PABX system by a private agency caused loss of potential revenue of Rs. 15.13 lakhs. Delay of over six years in providing teleprinter facilities between Gwalior and Guna was mostly due to time taken for procurement of power pack costing Rs. 480. Delay in installation of the equipment in Mangalore Coastal Wireless station resulted in loss of revenue amounting to Rs. 5.34 lakhs to the department.

EXAMINATION BY PAC

The PAC normally took up the Reports for examination within an average time lead of 2 to 3 months after their presentation to the Parliament, except in certain years' Reports, where delays ranged from 4 to 17 months - 4 months (1958, 1969-70, 1968), 5 months (1970, 1970- 71, 1984-85), 6 months (1965, 1966-67), 7 months (1956 and 1964), 9 months (1953), 11 months (1957 and 1969) and 17 months (1955). Examination of the Reports was completed within an average period of 4 to 5 months except in certain years - 9 months (1970, 1976-77, 1980-81), 8 months (1971-72, 1972-73, 1981-82, 1983-84), 7 months (1951, 1952, 1958, 1959, 1970-71) and a rare case of 20 months for examination of 1977-78 Report. About 5 months were taken for examination of the Reports during the first 10 years, 4 months in the next 20 years and about 3 months in the last 10 years. The number of paras selected for examination ranged from all paras in a Report (1964, 29 paras) to one para each in 1973-74 Report (out of 29 paras) and 1977-78 Report (out of 32 paras). Of the total number of 1189 paras included in 36 years' Reports (1950—85), 438 paras were selected for oral examination, which worked out to 37 per cent of the aggregate number of paras included in the Audit Reports. While 33 per cent of the reported paragraphs was taken up in the first 10 years (1950—60), 65 per cent of the paras were selected for discussion in the next 14 years (1961—73) under a system of categorisation of paras devised in 1968 into A, B, C explained earlier. During 1973-74 to 1984-85, only 10 per cent of the paras included in the Reports were discussed. Average number of paras discussed during the last 10 years was a mere four out of the total average of 38 paras and 2 reviews included in the Reports. Out of 19 reviews included in 4 years' Audit Reports upto 1984-85, 9 reviews were examined by the committee, *i.e.* 47 per cent of the aggregate number of paragraphs included in the Audit Report. The reviews examined were Projects for installation of three telephone exchanges at Railwaypura at Ahmedabad vide PAC's 133rd and 153rd Reports (1982-83), delay in installation of continuous channel testing bays and their unsatisfactory performance, vide their 191st, 196th and 205th Reports (1981-82), Review of Delhi Telephones and Providing Telecommunication facilities for Asiad, vide their 21st and 22nd Reports (1985-86), Working of Madras Telephone District, vide their 53rd and 61st Reports (1986-87), Review of Bombay Telephones, vide their 63rd and 73rd Reports (1986-87), New Delhi - Ambala Coaxial expansion scheme, vide their 87th Report (1986-87), Calcutta Telephone Working, vide their 100th Report (1986-87) and Kharagpur-Madras Wide Band Microwave Scheme, vide their 129th Report (1987-88). Two hundred and forty five paras of the Reports from 1979-80 to 1986-87 fell under the categories B and C. Action taken notes (ATNs) in respect of 226 of them were prepared by the Ministry and forwarded to the PAC after they were vetted by Audit. Except for 19 paras, the Committee had disposed of all the Action taken notes. The DA and his officers and staff spent considerable time in assisting the PAC and the Lok Sabha Secretariat, in the preparation of questionnaires, vetting of list of points, preparation of draft reports, adoption of reports and vetting of action taken notes received from department and their disposal. About 20-22 mandays on selected paras and 3 mandays on unselected paras constituted the average time spent in a month on these activities. Two hundred and thirty four mandays per year were spent on an average for examination and disposal of ARs 1981-82 to 1985-86.

COMMITTEE'S REPORTS

Normally, the committee presented its reports to Parliament within a month of completion of discussion, except in certain years, when there was abnormal delay *e.g.* 1955 and 1956 Reports took seven months, but certain years' reports were presented immediately after completion of discussion *i.e.* the next day, (1956 Report Part - II, 1957 Report Part - I, 1966 Report, 1969-70 Report and 1970-71 Report). When in the earlier years the committee examined a large number of paras in a Report, it was able to present its reports in 10 months but after the introduction of the selective examination of paras in the Reports, the Committee presented its reports in 15 months. In all, the Committee made 1,320 recommendations in 52 Reports during the period 1950 to 1985. Five hundred and seventy six recommendations were accepted by Government, 166 were not pursued by the Committee after receipt of replies, the replies furnished by Government for 135 recommendations were not accepted by the Committee and for 187 recommendations replies received were only of interim nature. The Committee took 3 months, 17 days to 23 months, 28 days for presentation of their main reports, the average time taken being 12 months and 9 days. During the last 10 years, when the number of paras taken up for examination was less, 23 months and 28 days were taken for finalisation of reports, the average time taken being 13 months and 22 days. The number of recommendations made during the last 10 years' Reports was 357 *i.e.* an average of 35.7 recommendations per Audit Report, which indicated the nature of the in-depth examination and extent of recommendations. The PAC took 9 months to 39 months for presentation of ATRs on their recommendations, average time taken during the last 35 years being 19 months and 8 days after presentation of their original reports. During the last 10 years, the ATRs were presented within a maximum period of 28 months and 26 days and minimum period of 11 months and 18 days, the average time taken being around 12 months and 23 days. On 89 recommendations relating to Audit Reports 1983-84 and 1984-85, ATRs were awaited on 31st March, 1989. The average time taken to complete action on each year's report was around 2 years, 4 months. Action on 1980-81 to 1983-84 Reports was completed 4 years, after they were presented to Parliament. The time taken for finalisation of Audit Reports, their examination by the PAC and presentation of reports incorporating its recommendations and completing action on them in so far as it related to P&T Department was between 34 months to 56 months during the last 35 years. Table below gives the performance of each Lok Sabha, upto March 1989 :

Nomenclature of Lok Sabha	*Average Time Taken for* Finalisation of reports	Examination and reporting	Completing action on PAC's recommendations
1st Lok Sabha	22 m 4 d	11 m 26 d	22 m 1 d
2nd Lok Sabha	14 m 9 d	9 m 6 d	13 m 29 d
3rd Lok Sabha	11 m 15 d	8 m 7 d	14 m 9 d
4th Lok Sabha	11 m 20 d	11 m 7 d	13 m 22 d
5th Lok Sabha	11 m 16 d	13 m 3 d	11 m 23 d
6th Lok Sabha	12 m 15 d	13 m 13 d	17 m 27 d
7th Lok Sabha	11 m 27 d	11 m 5 d	17 m 8 d
8th Lok Sabha (Upto March 89)	11 m 1 d	18 m 1 d	27 m 20 d

m - months, d - days
(Audit Report 1987-88 not yet examined).
Action on the original reports pertaining to AR 1982-83 only completed so far.

HIGHLIGHTS

An idea of the paras and reviews featured in the Audit Reports, the tenor of the recommendations of PAC and the nature of action taken by the Department/Ministry can be gathered from the following cases.

(*i*) The para* on expansion of Srinagar telephone exchange highlighted failure of the Department to verify the suitability of the first floor at the time of preparation of the project estimate for expansion programme resulting in delay of 14 months in commissioning of the exchange and loss of potential revenue of Rs. 9.50 lakhs during January 1976 to March 1977. The PAC@ was not satisfied with the evidence given by the Department and enquired as to why it took 10 years in initiating action for installation of telephone exchange on the first floor of the building resulting in its non-utilisation for long periods, why it did not proceed to test the first floor as advised by the CPWD and inform the CPWD if there was difficulty, and why the load-bearing capacity was not got tested by an outside agency like the Central Building Research Institute, Roorkee and expressed surprise at the missing records of the Exchange and desired the matter to be looked into in depth by the Department to locate them and suggested remedial measures to be taken by both the P&T and the CPWD departments to avoid future misplacement of records. The Ministry stateds that action for fixing the responsibility for the delay in the installation and consequential loss to the government had been initiated and joint action by CPWD and P&T Civil Wing has been taken to ensure proper up-keep of records and to plug loop-holes in the existing procedure for collection of revenues.

(*ii*) The para$ on installation of three telephone exchanges at Railwaypura, Ahmedabad brought out, *inter alia*, an extra expenditure of Rs. 1.32 lakhs on acquisition of the land essential for the exchange due to initial omission to acquire it along with the main site, creation of surplus technical area of 1814 sq. metres due to malplanning which remained unutilised, extra cost due to failure to obtain concessional excise duty on the tendered rate of highest tender, delay in placing orders for installation of air-conditioning plant and subsequent expenditure incurred on its repairs and maintenance, unutilised cables valued at Rs. 10.79 lakhs, under-utilisation of the capacity of the exchanges, loss due to inefficient functioning of the exchanges and non-utilisation of the goods lift provided at a cost of Rs. 1.07 lakhs.

---

* Para 14 of Audit Report 1979-80.

@ 64th Report (1981-82) VII Lok Sabha.

$ 134th Report (1982-83) VII Lok Sabha.

$ Para 23 of Audit Report 1980-81.

The PAC* recommended speedy measures to obtain acquisition of the requisite land; commented adversely on the failure of the Department to obtain concession of 50% excise duty on AC plant, omission to provide air-conditioning to 3000 lines of strowger exchange which increased the incidence of fault and maintenance efforts; regretted to note the defective performance of the AC plant despite the highest rate contracted for; was concerned to note that the spare capacity of the three old exchanges was not utilised to permissible limits, pointed out the need to improve the efforts to obtain self-sufficiency in providing telephone connections; and impressed on the P&T authorities to keep a close watch on the performance of the new exchanges installed at considerable cost with a view to ensuring that optimum benefits were derived to show distinct improvement in service rendered to the public.

The department@ took action on all the recommend- ations and informed the PAC that the General Manager had been directed to investigate the case thoroughly with a view to fix responsibility and the General Manager, Ahmedabad was also asked to monitor the performance to ensure satisfactory service, which had lately improved.

(*iii*) The para@* on arrears of telephone revenue highlighted arrears in collection of Rs. 17.10 crores in telephone revenue on 1st April, 1982, litigation in regard to recovery of Rs. 67.86 lakhs on 1st July, 1982, write off of telephone revenue of Rs. 11.33 lakhs during 1981-82 and heavy outstandings in metropolitan cities (Delhi Rs. 11.74 crores, Bombay Rs. 5.65 crores, Calcutta Rs. 5.20 crores and Madras Rs. 1.74 crores) at the end of 1981-82. The PAC* expressed concern over heavy arrears of telephone revenue and desired the department to tackle the problem of arrears, particularly old ones with vigour and determination and liquidate the arrears under a time-bound programme, desired the Secretary to the Ministry of Communications to take up personally, the arrears of Rs. 2.93 crores due from government subscribers, with Secretaries/ Heads of departments for early settlement, expressed concern at the delay in implementing the decision taken in 1974 to computerise the billing system in metropolitan cities due to procedural wrangles and desired the matter to be finalised expeditiously. The department took@ necessary remedial action under intimation to the PAC.

(*iv*) The overall review@* of on Posts and Telegraphs Department

---

* 153rd Report (1982-83) VII Lok Sabha.
@ 229th Report (1984-85) VII Lok Sabha.
@* 34 Para 6 of Audit Report 1981-82.
* 191st Report (1983-84) VII Lok Sabha.
@ 3rd Report (1985-86) VIII Lok Sabha.
@* Paras 1 and 2 of Audit Report 1982-83.

highlighted the physical and financial progress during 1982-83, shortfall in physical achievements of telecom targets and on the postal side shortfall in construction of post offices, RMS and MMS buildings and purchase of land (38%), construction of staff quarters (21%) and providing mechanical aids and modernisation of postal services (61%).

The PAC$ recommended that the Ministry should ensure that postal facilities become available to all gram panchayats, that the public sector enterprise should deliver the supplies punctually, that the system of testing of new equipments must be on extensive trial basis in the field, that the department should try to become self-reliant with the use of electronic transit exchanges in the P&T Telex net work and observed that the department was not able to achieve the estimated revenue on account of non-performance. The department took* necessary action on all the recommendations of the PAC.

(*v*) The para@ on hiring of private building at Naraina Industrial Area Phase-II, New Delhi revealed the high assessment of the rent by FRC in January 1983, omission to obtain the sanction of P&T Board for renting, non-occupation of the buildings resulting in infructuous expenditure of Rs. 14.17 lakhs (upto December, 1983) and extra expenditure of Rs. 1.10 lakhs incurred on construction of partition in contravention of the provision of the lease deed. The PAC* endorsed the view of Audit regarding the high rent and procedural irregularities and suggested issue of comprehensive instructions with regard to hiring of accommodation. The Committee felt extremely un-happy about the financial irregularities committed by the various functionaries of the department at various levels, particularly the Members of FRC and GMT, Delhi and suggested taking immediate steps to assess the requirements of the department and to draw up a plan of action so as to improve the efficiency of the department. The departments took action on all the recommendations.

$ 22nd Report (1985-86) VIII Lok Sabha.
* 113th Report (1987-88) VIII Lok Sabha.
@ Para 41 of Audit Report 1983-84.
* 73rd Report (1986-87) VIII Lok Sabha.
$ 159th Report (1988-89) VIII Lok Sabha.

LIST OF ABBREVIATIONS

1.	AAO	—	Assistant Audit Officer
2.	AC	—	Air Condition
3.	Ar.Gl.	—	Auditor General
4.	AGCR	—	Accountant General, Central Revenues
5.	AG P&T	—	Accountant General, Posts and Telegraphs
6.	A.O.	—	Accounts Officer Audit Officer
7.	ATN	—	Action Taken Note
8.	ATR	—	Action Taken Report
9.	C.P.F.	—	Contributory Provident Fund
10.	CPWD	—	Central Public Works Department
11.	CTD	—	Cumulative Time Deposit
12.	DAG	—	Deputy Accountant General
13.	DCA	—	Director of Commercial Audit
14.	F.R.	—	Fundamental Rules
15.	FRC	—	Fair Rent Committee
16.	GHz	—	Gigahertz
17.	GMT	—	General Manager Telephones.
18.	G.P.F.	—	General Provident Fund
19.	IAAD	—	Indian Audit and Accounts Department
20.	IAAS	—	Indian Audit and Accounts Service
21.	MHz	—	Megahertz
22.	MMS	—	Mail Motor Service
23.	M.O.P.	—	Manual of Office Procedure
24.	M.S.O.	—	Manual of Standing Orders
25.	OAD	—	Outside Audit Department
26.	P.A.	—	Personal Assistant
27.	PAC	—	Public Accounts Committee
28.	PLI	—	Postal Life Insurance
29.	P&T	—	Posts and Telegraphs Posts and Telecommunications
30.	RMS	—	Railway Mail Service
31.	S.A.S.	—	Subordinate Accounts Service
32.	SB	—	Savings Bank
33.	SBCO	—	Savings Bank Control Organisation
34.	S.O.	—	Section Officer
35.	SPO	—	Superintendent of Post Offices
36.	S.R.	—	Supplementary Rules
37.	SRM	—	Superintendent, Railway Mails
38.	SSPO	—	Senior Superintendent of Post Offices
39.	SSRM	—	Senior Superintendent, Railway Mails
40.	STD	—	Subscriber Trunk Dialling

SOURCES AND REFERENCES

1. Manual of Standing Orders of AG & P&T, II and III Editions
2. Manual of Office Procedure of AGP&T-II Edition
3. P&T Audit Manuals-All Volumes All Editions
4. Plan documents relating to the Departments of Posts and Telecommunications and Performance Budget documents
5. Appropiration Accounts (Posts and Telegraphs) 1946-47 to 1987-88
6. Audit Reports (Posts and Telegraphs) 1946-47 to 1987-88
7. PAC Reports

— 64th Report (1981-82) VII Lok Sabha
— 134th Report (1982-84) VII Lok Sabha
— 153rd Repoort (1982-83) VII Lok Sabha
— 191st Report (1983-84) VII Lok Sabha
— 229th Report (1984-85) VII Lok Sabha
— 3rd Report (1985-86) VIII Lok Sabha
— 22nd Report (1985-86) VIII Lok Sabha
— 73rd Report (1986-87) VIII Lok Sabha
— 113th Report (1987-88) VIII Lok Sabha
— 159th Report (1988-89) VIII Lok Sabha

21 Accountant General, Central Revenues

A CENTURY OLD INSTITUTION

Originally formed as the "Comptroller, India Treasuries" at Calcutta in the year 1882, for accounting and auditing of the transactions of the Government of India, the office was renamed as "the Accountant General, Central Revenues" in 1919 and shifted to Delhi in 1924, where it was initially housed in the Northern Wing of the Central Secretariat Complex and subsequently shifted to the hutments on Curzon Road*. One of the senior most officers held the office of AGCR, who was one of the few service officers, who formed the inner counsel of the Auditor General. When India attained freedom from foreign domination, Shri Ram Gopal, who had rendered 28 years' service in IAAD was the Accountant General. The foundation of the new building in Indraprastha Estate was laid by Shri S. Radhakrishnan, Vice President of India, in February 1956, when he described the role of the Indian Audit and Accounts Department in the governmental set-up as under :

"Recent reports have revealed to us serious irregularities in the working of the administrations themselves. They have referred to the great losses sustained by the government by errors of judgment, negligence, incompetence, inefficiency. It was all right during the war period, when we wanted to speed up business and therefore we relaxed standards. There is no justification today for relaxing such standards. Ours is a poor country, its resources are limited and we cannot afford to risk any kind of waste and the Audit and Accounts Department will have to look upon their functions as functions of the greatest public utility by pointing out errors and by showing, where and how, we can remove abuses, effect economies, increase efficiency and reduce waste of expenditure. These things are very essential. There is a popular feeling that, if the Accounts people are well thought of by the States, there is something wrong about them and if they are not well thought of, they are doing their duty properly! That may be so or may not be so. I do not believe that the different departments of the State are working at cross purposes. All that I mean is that the Accounts Department must not be afraid of courting unpopularity. They must not go about always saying things, which will please their superiors. There is an increasing tendency in our country today to say things which our superiors wish to hear and it

* Later named as Kasturba Gandhi Marg.

is that tendency that has to be resisted. I do hope that these people who are the watch-dogs, so to say, of the public funds or the tax payers' money will exercise great vigilance and control and see to it that we get a proper return for every rupee we spend and there is a proper utilisation of public funds."

"Building up a welfare State is not to be regarded as merely a motive for promoting one's own welfare. It is the welfare of the country which we have to set before ourselves, and there the work which the Audit and Accounts Department can do is very great. By exposing failings, by revealing defects, you set before the country a great standard, and see to it that our Schemes are carried out with economy and efficiency."

"The Audit Department is obliged to say things, which are embarrassing to the Government, but it is the duty of its officers, on account of their greater loyalty to the country, to act as a check even on the Government of the country."

"If I have one advice to give, if I am presumptuous enough to give any advice to the officers of the Audit and Accounts Department, it is this: Do not shrink from truth for fear of offending men in high places."

The office moved into the new complex in 1959. During the long span of over a century, the office was headed by 26 Comptrollers during April 1883 to August 1919 and 63 Accountants General during September 1919 to March 1979. The office was redesignated as Director of Audit in April 1979 after departmentalisation of accounts in the Government of India and since then 18 officers held the office during April 1979 to 1989. In the post independence era, 51 officers held the office of Accountant General/Director of Audit - the tenure of each varied from eight days to five years, seven months and seven days, held by Shri S. Venkataramanan. After the conversion of the office into exclusive audit office of the Government of India, the tenure of the officers who functioned as DAs varied from eight days to two years and seven months and Shri K.C. Das had the longest tenure. 15 officers, who had functioned as AGCR/DACR had moved up to headquarters office, of which five became Deputy Comptroller and Auditors General for varying tenures.

FUNCTIONS AND ORGANISATION

The AGCR compiled the accounts of the Government of India from the accounts received from Central Treasuries, Banks, Departmental officers and other Accounts officers and audited the transactions centrally and locally: authorised the pay, allowances and other entitlements of gazetted officers, issued pension payment authorities in the case of gazetted and non-gazetted officers and maintained PF accounts of all subscribers of the various Ministries and attached and subordinate offices of the Government of India as a whole and audited transactions pertaining to the Ministries, their attached and subordinate offices, including Embassies abroad, except those audited by the Directors of Audit, Indian Accounts, London and Washington. The office was organised into seven departments - Treasury Audit, Gazetted Audit, Works Audit, Miscellaneous, Administration, Outside Audit (Civil) and (Works) - which functioned as self-contained groups with their own coordination sections for efficient administration and proper working of each group. The Treasury Audit and Works Audit Departments were headed by a Sr. DAG each, the Gazetted Audit, Miscellaneous and Administration groups were headed by a DAG each and the Outside Audit Department (Civil) and (Works) by an Examiner each. The strength of each section was fixed as per standards prescribed by the CAG and a number of sections were placed under the immediate charge of an Assistant Accounts Officer or Assistant Accountant General, each group being supervised by a DAG or Sr. DAG depending on the strength, composition and importance of the functions performed. The optimum number of UDCs in a departmental audit section and headquarters section in OAD was eight, gazetted audit, works audit, pension audit, provident fund and account current, ten each. When the strength of a section exceeded by one third, an assistant superintendent was allowed for assisting the Superintendent in the supervision of section.

The Treasury Audit Department examined the accounts received from the Treasuries, the Bank and departmental officers including accounts received from other Accounts Officers, and prepared a separate classified abstract for each District or Departmental account. 7 treasuries, 43 departments, 128 central public works and civil aviation divisions and 4 forest units were under the accounting control of AGCR. The entire correspondence with Treasury and Disbursing Officers, regarding inaccuracies or objections, or other irregularities and defects, discovered in the course of investigation of the accounts were pursued by the sections until final clearance. The sections were formed on a departmental basis and grouped into administratively viable ones to deal with the transactions of several Ministries. There were 29 sections (excluding TM and appropriation audit section) with a strength of 31 SAS, 4 Assistant Superintendents, 243 UDCs and 36 LDCs. The Treasury Misceallenous section performed more important functions like coordination of procedures in the different sections of the TAD group, scrutiny of general orders and rules affecting the TAD group and issue of suitable instructions and directions, investigating questions of general policy pertaining to subjects within the group, disposal of difficult and controversial cases, giving advice sought by the different sections of the group and disposal of common references relating to the group, consolidation of the arrears of the group etc. The appropriation audit section consisting of 1 SAS accountant, 7 UDCs and 1 LDC under the direct control of the Sr. DAG (TAD) conducted appropriation audit of the Central civil expenditure including the audit of orders of allotment of funds and reappropriation, although the detailed supervision and general control vested with an AAO.

The Gazetted Audit Department comprised 17 sections under the immediate charge of an AAO or AAG, for regulating the pay and allowances and other entitlements of about 5000 gazetted officers employed in 21 Ministries/Departments of Government of India and spread over all the Provinces. The gazetted miscellaneous section controlled and coordinated the work of all sections under the overall supervision of a DAG. History of services of Central Government Officers was prepared until July 1956, when Service Cards were introduced. The scale check of All India Service officers and Central services was carried out by the group.

Works Audit Department carried out audit of transactions brought to account by the divisional officers of the Central Public Works Department, and also the works expenditure incurred by the Electrical Engineer, New Delhi Municipal Committee and by Civil Aerodrome officers and Superintendents of the Archaeological department and comprised 6 sections under the direct supervision of AAO and 3 parties - one for rent audit another for concurrent audit of Sindri and the third an *adhoc* one, with a total staff strength of 6 AAOs, 14 SAS, 4 DAs, 1 Assistant Superintendent, 124 UDCs and 18 LDCs under the group supervision of DAG (W). Coordination functions were shared by WM, Establishment (W) and compilation (Works) sections. Central audit of public works transactions conducted by different works audit sections included scrutiny of all sanctions to estimates and other sanctions and orders with reference to their propriety and competency and noting in works audit registers, etc. for reference during audit, watching the punctual receipt of the monthly divisional accounts, examination of the accounts, schedules and other documents accompanying the accounts, audit in detail of the monthly accounts (including schedule dockets and vouchers) in accordance with the prescribed rules, posting and maintaining the works audit register and scrutiny of other periodical returns such as completion reports, land award statements, half-yearly register of stock, yearly register of tools and plant etc. Works miscellaneous sections secured coordination and control of the entire works audit functions. They also dealt with all matters pertaining to the administration of the cadre of DAs.

Outside Audit department conducted audit of local funds, inspection of treasuries and works divisions, inspection of initial accounts of certain autonomous bodies and Central institutions and audit of the accounts of Government commercial concerns and comprised two separate groups - Civil and Works - under two Examiners from August 1949. OAD (Civil) wing had one headquarters section under the direct charge of an Examiner, four inspection parties and one concurrent audit party in the Delhi Municipality. Local audit of 35 local funds, for which fees were recoverable (for example New Delhi Municipal Committee, Delhi University, Delhi District Board, Delhi Joint Water and Sewerage Board, Ajmer Municipality and Ajmer District Board), 74 non-commercial Government organisations/concerns, where no fees were charged, (such as Central Research Institute, Kasauli, Delhi District Jail (maintenance of accounts), Irwin Hospital, Director General of Archaeology, etc.), 5 non-commercial Government concerns, such as Lady Hardinge Medical College and 15 Government commercial concerns such as Government of India Presses, New Delhi and Simla, Central Publications branch, All India Radio, etc. was carried out. The OAD (Works) wing with one headquarters section and three inspection parties conducted inspection of 71 CPWD divisions (except the Andaman PWD).

The Miscellaneous group comprised several sections such as book, budget, report, loans, foreign claims, pension compilation (special), finance account, provident fund, account current and central. The central section acted as the coordinating unit for the group. Book section was under the direct charge of the group officer and consisted of 1 SAS, 1 Assistant Superintendent, 21 UDCs and 2 LDCs. Posting and consolidation of accounts upto preparation of monthly civil account, maintenance of statement of disburser's account, compilation of reserve bank account, adjustment of transactions under various remittance heads, preparation and submission of various reports to the CAG in connection with Combined Finance and Revenue Accounts, scrutiny of transfer entries, maintenance of combined transfer entry ledger and abstract and maintenance of general ledger were the main items of work dealt with in this section. Budget section issued budget forms to the estimating authorities for preparation of annual budget estimates, scrutinised the estimates received from them and after consolidation, prepared budget notes and demands for grants, three - monthly/six - monthly estimates, and estimates of debt, deposits etc. The sanctioned strength was 1 SAS and 6 UDCs, which was usually augmented by addition of 8 to 15 UDCs during the budget season commencing from 15th October. The entire section was placed at the disposal of Ministry of Finance from 1st February to help them to prepare demand statements in the final form. The work of the section was generally under the direct guidance of the AG, although its detailed supervision and general control were vested with an AAO. Report section under the direct control of the AG prepared and submitted to the CAG consolidated statements of 'voted' and 'charged' expenditure by major heads for Combined Finance and Revenue Accounts, examined subsidiary statements and material for Audit Report received from different sources and cleared them for inclusion in the Appropriation Accounts and Audit Report, prepared All India Appropriation Accounts including the Audit Report and dealt with all other work connected therewith. The proceedings of the Public Accounts Committee were scrutinised and assistance to the Committee, was rendered by the office as and when desired. With the continued growth of transactions connected with the issue and discharge of Central Government loans, both in volume and variety, a separate loan and reserve fund section with 1 SAS, 8 UDCs and 1 LDC was formed in May 1949 for dealing with all public debt, loans and advances by the Central Government and work pertaining to reserve funds and other deposit accounts. By 1954, the scope of work relating to loans and advances by the Central Government became voluminous as a result of the implementation of various schemes under the five year plan and accordingly the number of loan sections increased to two. Foreign claim section dealt with the accounts of all foreign states except Burma and Pakistan and other bodies, whose finances were independent of those of the Government of India and also effected necessary monetary settlement. Pension section scrutinised the pension papers received from the departments in the case of non-gazetted staff and from the gazetted audit sections in respect of the gazetted officers, calculated the length of service, determined the amount of pension/DCRG admissible and authorised their payment and audited the transactions after their payment by the treasuries. On the abolition of the office of the Controller of Currency, certain items of work were transferred to the AGCR, like compilation of cash balance reports of Central Government at the Reserve Bank of India received with the accounts and their reconciliation with those reported by the Bank, agreement of the balances of the treasury bills, adjustments relating to sinking fund transactions etc. Provident fund group with 7 sections maintained the PF accounts of officers and staff subscribing to provident funds of various categories. Account current group with 9 sections and a total strength of 81 dealt with the transactions passed on through exchange/settlement accounts and effected monetary adjustments wherever necessary and London account current section consisting of 1 SAS, 9 UDCs and 1 LDC dealt with transactions of inward and outward account with the High

Commissioner for India in London. Central section in its role as the co-ordinating section of the group scrutinised rules and orders affecting the sections in the miscellaneous group, coordinated the procedure in different miscellaneous sections, dealt with cases of general nature or those involving interpretation of rules and gave advice sought by the different sections in the group.

Higher Audit section with 1 SAS and 2 UDCs examined all orders of delegation of financial authority, scrutinised important items of expenditure as per recognised standards of financial propriety and reviewed the work carried out in the several sections of the office as well as cases referred by other sections for examination from higher audit point of view. Administration group consisted of Administration, Establishment, Training and Record (Central) sections, which dealt with all work connected with the general administration of the office, personal claims of staff including maintenance of service/leave records, training of new recruits and distribution of inward correspondence etc.

DECENTRALISATION AND EXPANSION

The receipts and disbursements of the civil departments of the Government of India were of the order of Rs. 3170.58 crores and Rs. 2961.31 crores in 1950-51. The total strength of the office was 1325 in July 1950 (12 IAAS, 27 AAOs, 107 SAS, 116 DAs, 843 SGCs/UDCs, 7 stenos and 213 LDCs). The audit, accounting and entitlement work relating to Central Government offices and Establishments spread over in different states was decentralised from time to time and transferred to the concerned AG from April 1951 onwards for more efficient and effective working. In April 1951, the work relating to 26 departments under various Ministries was transferred to the respective AG, under whose jurisdiction they were located. During the period 1952 to 1965, the work of 36 more departments/offices was transferred to the various As.G. Transfer of work relating to Ministries of Commerce and Industry, Steel, Mines and Fuel, Company Law Administration in April 1958 and the Ministries of Food and Agriculture, Irrigation and Power, Transport and Communication, Works, Housing and Supply, Delhi Land and Development Office, CPWD and other divisions (except AIR divisions) in November, 1961 to the office of the AGCWM, constituted a major one, involving the transfer of about 17 officers and 954 staff. A new system of payment by cheque instead of bills was introduced at New Delhi Treasury from September 1955 and the Treasury officer, New Delhi sent every month along with the list of payment, a list of cheques issued, a list of cheques paid and also a list of cheques outstanding/unpaid during the month. One section was made responsible to watch the receipt of the requisite documents and to maintain a broadsheet of outstanding cheques and to reconcile discrepancies, if any, from time to time.

EMBASSY AUDIT

A separate Embassy Audit Group was formed by grouping 8 TAD and 3 GAD sections dealing with the Ministry of External Affairs and Missions abroad from January 1956 under the immediate charge of four branch officers and the group supervision of a Sr. DAG. The coordination work was vested in Embassy Miscellaneous section, which rendered professional advice on matters specific to the Group. Embassy Audit sections examined the monthly cash accounts received from various Indian Missions and posts abroad (except High Commission of India in London and Embassy of India in Ireland, Dublin) as well as the accounts received from the New Delhi Treasury in respect of Ministry of External Affairs and Departmental officers in India functioning under its control and compiled and posted them in separate classified abstract for the Ministry of External Affairs and each mission/post abroad. Besides issuing pay slips and leave salary certificates in respect of gazetted officers, central audit of the accounts and vouchers received from the various accounting authorities in the missions/posts abroad was carried out. Local audit covered missions/posts including tourist offices located in Africa, Asia, South-east Asian countries, Japan, Phillippines, Australia, Newzealand, etc. as also the Ministry of External Affairs and its subordinate offices. Formation of a separate embassy group enabled proper and efficient discharge of the auditorial functions, better coordination among the group and prompt pursuance of all objections or other irregularities and defects noticed during the course of central and local audit. A manual of the embassy audit group explaining the constitution of the group, general arrangements for acounting and incorporating special orders issued by the Government of India from time to time in connection with the financial transactions of the Indian Missions abroad, was issued in July 1960 by Shri S. Venkataramanan, the then AGCR.

The audit of the newly constituted Delhi Development Authority and Town and Country Planning Organisation was entrusted in 1957. The responsibility for prepartion of Finance Accounts of the Central Government was transferred from headquarters office from the accounts of 1956-57 onwards. A Finance compilation section was formed from 1st August, 1957, with 1 SAS accountant, 6 UDCs and 1 LDC to check the material received from the various Accounting offices, namely State AsG, CPAO, Ministry of Works, Housing and Supply, Pay and Accounts Offices, Ministry of Food and Agriculture. Ministry of Rehabilitation, Lok Sabha and Rajya Sabha and also to compile the accounts and send them in phases to the CAG of India on prescribed dates so as to give the final copy by the 15th February. From 1961-62, the responsibility of preparing and submitting the consolidated coinage accounts was entrusted to AGCR.

IRLA

The individual running ledger account (IRLA) system was introduced for regulating and making payment of salary and other entitlements of gazetted officers of IAAD from October 1962, which was subsequently extended to the officers of the Ministry of Information and Broadcasting from June 1963, and the Prime Minister's Secretariat from December 1968. The system was also introduced in Border Security Force from June 1967 and Central Reserve Police Force from February 1969 which was operated by the departmental authorities. Under this system, salary bills of gazetted officers and their statements of accounts were prepared by the IRLA group and the passed salary bills were transmitted to the disbursement section for issuing cheques instead of issuing pay slips to the gazetted officers and payment by the treasury officers. Claims like honorarium, fees, transfer grant etc. were paid by the section on the basis of the authorities received from gazetted audit section. An IRLA manual incorporating the salient features of the new scheme as well as the systems and procedures for regulation and payment of salary etc. of the gazetted officers was prepared in 1962 for guidance of the officers and staff.

The PF group maintained accounts of 51,085 subscribers in March 1962. Errors in totals, omissions to quote account numbers or quotation of wrong account numbers in the schedules, mistakes in covering schedules prepared by the departmental audit sections and misclassifications rendered completion of the individual subscribers' accounts difficult. At the end of June 1963, there were 36,557 missing credits and 26,172 unposted items. The squaring of unit broadsheets and closing of consolidated broadsheets was in arrears for three months of 1961-62 and five months of 1962-63 at the end of June 1963.

Computerisation of provident fund account commenced from 1970 and out of 1,20,000 accounts, 83,000 accounts were computerised - 46,000 accounts during 1970-71 and 37,000 during 1971-72 and 7 SAS, 35 UDCs and 6 LDCs were engaged on the work. The remaining 37,000 accounts of BSF, CRPF and erstwhile municipal corporation schools were maintained under the hand posting system on which 6 SAS, 54 UDCs and 6 LDCs were engaged.

RECEIPT AUDIT

The AGCR coordinated customs audit, the earliest of the receipts audited by the IAAD, in regard to matters connected with the procedures and practice in all Customs Houses under the audit control of the Maritime AsG and for presentation of the results of customs revenue audit to Government and to the PAC. There were separate cadres of AAOs and SAS accountants and the Customs Revenue audit staff had transfer liability all over India. To compensate for the All-India transfer liability and in view of the technical and special nature of work to be performed by them, AAOs were allowed the scale of pay admissible to the AAOs in other branches of the Indian Audit and Accounts Department plus a special pay of Rs.75 per mensem, while the SAS accountants were allowed a special scale of pay of Rs. 450-25-550-30-760. There was also a separate SAS examination for the Customs Revenue Audit branch. Administration of the SAS accountants' and Assistant Accounts Officers' cadres of the Customs Revenue Audit branch was under the control of AGCR. From the middle of 1960, audit of income tax, corporation tax and central excise was undertaken on an experimental basis and from 1st April, 1961 on a permanent basis, which was coordinated by AGCR. The administrative control as well as the coordinating functions of revenue audit were transferred to headquarters office from October 1961.

Audit of wealth tax, gift tax, estate duty and sales tax was taken up from December 1967 and the group charge of receipt audit was upgraded to the level of Sr. DAG. Customs Revenue Audit SAS Cadre was abolished in 1968 and those who belonged to the cadre were allowed to retain the customs revenue audit pay scales as personal to them and were also given the option to choose a civil office, where their *interse* seniority was fixed according to the principles approved by the CAG. Steps were also taken to strengthen customs revenue audit with a view to improve its performance and quality by reviewing and revising the quantum and scope of audit, which had remained static from 1938.

The strength of the office in October 1964 was 1635 (24 IAAS, 40 AAOs, 141 SAS, 977 SGCs/UDCs, 14 stenos, 193 LDCs and 246 class IV). The sections were reorganised and regrouped under 7 supervisory charges headed by a Sr. DAG/DAG under the overall supervision of AG as shown in table 1 below :

ECPA

The HAD section was re-designated as efficiency-cum-performance audit section and the scope of work was redefined in 1963. Certain items

Name of Group charge		Composition of group
(i)	TAD/Sr. DAG	All TAD Sections, TM, Book, Compilation-Special, Loan, Finance Accounts, Higher Audit and National Defence Fund sections, Coordination work in TM section.
(ii)	GAD/DAG.	All Gazetted Audit, Fund and Pension sections coordination work by GM Section.
(iii)	Embassy Audit/ Sr. DAG	All Embasasy Audit sections; coordination work in E.M. Section
(iv)	Admn./DAG	Admn., Estt. Bill, Welfare, Account Current, LAC Foreign Claims Sections, Training Class, Suspense Drive Party, Test Audit Parties and Record Central; coordination work with Admn. Section.
(v)	OAD/DAG	Two headquarters sections for civil audit and one headquarter section for Revenue audit, 15 civil audit field parties and 7 revenue audit parties (3 for Income Tax, 3 for Central Excise and 1 for Customs Revenue Audit).
(vi)	IRLA/DAG	All sections engaged on centralised system of payment of gazetted officers.
(vii)	Direct chanrge of AG	Budget, Report , Report Research and Finance Complation Sections.

Table 1

relating to propriety audit were transferred to other control sections so as to devote more attention to efficiency-cum-performance audit, which had acquired importance in the context of various development programmes and welfare activities undertaken by Government. Expenditure incurred on different schemes was examined to ascertain whether they were being executed and their operations conducted economically and whether they were producing the results expected of them. Techniques were developed from time to time to conduct this new type of audit and they were improved further based on the experience gained. On the basis of the results of efficiency audit of individual big projects and schemes, attempts were made to make an overall appraisal of the progress and efficiency of the plan expenditure with reference to the plan targets and anticipations. A party of 2 SAS and 1 UDC was engaged to carry out review of selected schemes. The efficiency-cum-performance audit section coordinated the functions of the special party with the other OAD parties, wherever possible and to the extent necessary. From 1971-72, audit reviews of developmental schemes and projects were intensified and the number of parties increased to four by 1975, besides one headquarters section. The strength of the wing was 9

SAS and 1 clerk. Guidelines for conducting reviews were initially framed by headquarters office but gradually, when expertise was gained, the guidelines were framed by the office, which were vetted/approved by the headquarters office. The reviews conducted were of different types - purely local reviews, micro reviews, macro reviews - both of horizontal and vertical type covering the country as a whole.

BIFURCATION OF TAD

The TAD group was divided into two separate wings from 1966, the compilation group dealt with compilation of accounts and allied matters in 14 accounting sections and the other audit group of 9 sections carried out central audit. One or more UDCs commonly known as auditors performed the accounting and audit of each item of work relating to treasury or departmental accounts. Each auditor, in the accounts section compiled the accounts allotted to him, including the disposal of correspondence relating thereto, posting and totalling of classified abstracts, maintenance of broadsheets etc., making over vouchers, account current suspense and other slips, schedules etc. to the various sections and similar other items of work arising out of the compilation of treasury or departmental accounts. Each auditor in the audit section audited the accounts, establishment bills, travelling allowances bills, contingent bills etc., allotted to him including the disposal of correspondence and final settlement of objections, noticed in the course of audit and arranged vouchers, maintained objection books and broadsheet of O.B. advances and similar other items of work arising out of audit of treasury or departmental accounts. Both lists of accounts were compiled by 25th of the same and 14th of the following month and the Departmental Classified Abstract prepared and transmitted to Book section (by the 3rd to last day of the second following month) for consolidation and sending monthly account to Government of India. Audit was completed by 27th of the following month by the audit sections.

The optimum size of GAD and pension report sections was reduced to 5 UDCs, WAD, FAD, OAD headquarters and TAD sections to 7 UDCs, and PF and other accounting sections including pension audit, TAD (compilation group), account current, deposit, remittance etc. to 9 UDCs. Local audit parties were strengthened and periodicity was revised.

The system of drawal of personal claims of gazetted officers on establishment pay bill forms was introduced in respect of section officers of the Central Secretariat and the AAOs of IAAD in 1966. Consequently their accounts were transferred from IRLA to the respective heads of parent departments, which reduced the volume of work slightly in the gazetted audit department.

By 1970, the strength of the office had risen to 1926 (30 IAAS, 60 AOs, 216 SAS, 1140 SGArs/Ars, 235 clerks, 16 stenos and 229 class IV). The AG held direct charge of his secretariat, three report sections, two appropriation audit sections and one test audit party and was assisted by 4 AOs. There were 5 Sr. DAsG and 3 DAsG. The Sr. DAsG were assigned the charge of major groups - embassy audit (12 sections), outside audit (2 sections and 36 field parties), accounts and provident fund (41 sections), entitlements (35 sections) and receipt audit (10 parties - 5 income tax, 4 central excise and 1 custom). Three DAsG supervised the administration group (13 sections), D. A. group (9 sections) and S. D. group (15 sections).

IMPLEMENTATION OF THE ACT

A special cell was constituted in 1972 with 1 A.O. and 1 S.O. directly under the charge of the AG to identify the bodies or authorities which qualified for audit under the CAG's (DPC) Act, 1971, for arranging local audit and coordinating the work. Besides identifying bodies/institutions for audit, cases of entrustment/re-entrustment of audit were taken up by the cell with the Ministry of Finance in respect of institutions located in Delhi/New Delhi. Matters regarding interpretation/clarification of the various provisions of the Act were also taken up with the different authorities like Ministry of Finance, Ministry of Law and other Ministries/Institutions and CAG of India from time to time. 38 institutions were initially identified for audit under Section 14 of the Act in 1971-72. In March 1975, the OAD group had 6 Headquarters sections, 16 strengthened parties, 17 ordinary parties and 4 ECPA parties and the total strength was 39 AOs, 64 SOs, 75 auditors and 12 clerks.

SEPARATION OF ACCOUNTS

In March 1976, the strength of the office was 1989 - 38 IAAS, 117 AOs, 198 SOs, 1127 SGArs/Ars, 225 clerks and 26 stenos and 258 Class IV and the expenditure for 1975-76 was Rs. 235.56 lakhs which constituted 0.02% of the expenditure of the Government of India. The entire accounting and entitlement work relating to the Ministries/Departments/Attached and subordinate offices of Government of India was transferred to the PAOs attached to the respective Ministries during July and October 1976 alongwith the officers and staff engaged on the work. In all, 1168 officers and staff - 75 AOs, 133 SOs, 688 SGArs/Ars, 3 stenos, 183 clerks and 86 class IV were transferred. Certain residuary entitlement functions, like verification of service particulars of gazetted officers relating to the period upto February 1976, whose transfer documents etc., though prepared, were lost or misplaced by the

Ministries/Departments and also the drawals upto September 1976 for payment of arrears arising out of retrospective fixation of pay due to some reason or the other, issuing certificate regarding receipt of full amount of foreign service contribution, furnishing information from the pension files of old pensioners whose cases were finalised upto September 1976 for revision of pension as a result of Supreme Court judgment, change of formula for calculation of family pension, implementation of Pay Commission's recommendations, etc. and bringing the pension registers upto date after receipt of intimation of drawal of arrears, were left with the AG. It also undertook revision of pension of pre-1979 pensioners, who retired before departmentalisation, by virtue of the Supreme Court judgment and the orders issued by the Government of India in September, 1983 on that basis.

The AGCR was declared the Principal PAO of the Indian Audit and Accounts Department and carried out certain accounting and entitlement functions. The accounting work involved was consolidation of the monthly accounts of the Audit Department with 26 PAOs, preparation of appropriation accounts of the department in respect of major heads of Account "31 - Audit" and "25 - Pension", collection and consolidation of material for the Central Finance Accounts, preparation of statement of central transactions of Audit Department, data for Budget Estimates of Receipt Heads and pension of Audit Department, maintenance of pension payment register in respect of other circle authorities and authorisation, after affixing special seal authority, of pension/commuted value of pension on authorities received from different PAOs of IAAD from time to time, consolidation of monthly expenditure of Group A officers of Audit Department in respect of each Zonal Railway and P&T Circle and obtaining reimbursement of expenses from Railway and P&T, co-ordination of PAO group as a whole, including transmission of returns to CAG of India/Ministry of Finance/CGA and dealing with cases relating to adoption of pre-departmentalisation balances by the PAO of IAAD, cases relating to transfer of balances among different PAOs, maintenance of PSB Suspense broadsheet of 26 PAOs, monthly reconciliation of Bank Account, annual indent for cheque books of different categories for 26 PAOs and the cheque drawing DDOs under them etc. The entitlement functions relating to 9 audit offices located at Delhi/New Delhi, which involved pre-audit and payment of bills received from drawing and disbursing officers of these offices, maintainance of their provident fund accounts, finalisation of pension claims and watching the recovery of foreign service contributions, were also performed. The IRLA system for Group A officers of IAAD was continued. The strength of the residuary office in March 1977 was 1401 (32 IAAS, 82 AOs, 260 SOs, 670 SGArs/Ars, 162 clerks, 20 stenos and 175 group D). The expenditure incurred by the office in 1977-78 was Rs. 107.11 lakhs, which constituted 0.01% of the expenditure and receipts of the Ministries/Departments under its audit control. The office was redesignated as Director of Audit in April, 1979. In June 1983, the IRLA system was decentralised and officers working under the various Ds.A/As.G drew their salaries from the respective PAOs and the IRLA system was confined to Group A officers of IAAD stationed at Delhi.

ANNUAL FINANCE ACCOUNTS

The Annual Finance Accounts were prepared by the CAG's office until 1955-56 accounts, when the work was transferred to AGCR. The accounts for 1947-48 (15th August, 1947 to 31st March, 1948) were signed by the CAG in the first week of March 1959, 1948-49 to 1954-55 in the first week March, 1960 and 1955-56 in the second week of August 1960. The work of compilation of Central Finance Accounts was entrusted to AGCR from the year 1956-57 onwards who was required to send the accounts in a phased manner to the headquarters office in triplicate on stipulated dates so as to reach the final copy by 15th of February of the succeeding year to which they related. The first proof was sent in batches commencing from the middle of November and ending middle of December, the second proof by the third week of January, and the final copy by the 15th of February. The manuscripts of Part-I and Part-II of the Finance Accounts were completed and sent to the press to bring out the second proof in batches between 4th and 13th December and the complete book for final printing was sent to the press on 10th January. Sixteen copies of the Finance Accounts, as finally printed, were submitted to headquarters for affixing the CAG's original signature along with the audit ceritifcate.

The accounts for the years 1956-57 to 1958-59 were sent in the second week of August 1960. From 1959-60 Finance Accounts were submitted every year. The average time lead for finalising the Finance Accounts from 1959-60 to 1976-77 was 15 months 8 days - the maximum of 21 months, 2 days for 1976-77 accounts and the minimum of 12 months, 22 days for 1961-62 accounts. After the departmentalisation of accounts, the Controller General of Accounts prepared the Finance Accounts from 1977-78 onwards. All the consolidated statements of Union Government Finance accounts - about 19 - received from CGA's office were audited by the local audit parties as per the prescribed guidelines, who returned them to the headquarters section for general scrutiny and check and the results were intimated to the CGA's office for necessary corrections of accounts etc. After settlement of all discrepancies, final copies of Finance Accounts were sent to the CAG's office for signature. An average time lead of 18 months 16 days - the maximum of 27 months, 5 days in 1977-78 and minimum of 12 months, 20 days for 1986-87 - was taken by the CGA to finalise the Finance Accounts. While under the earlier system, AGCR performed both accounting and auditing functions, *i.e.* preparation and finalisation of Finance Accounts and its scrutiny/audit, which enabled him to bring out and sort out the various discrepancies/bottlenecks under one single authority, after the departmentalisation of accounts, multiplicity of the authorities were involved in finalisation of Finance Accounts, with attendant delays due to one reason or the other and apportionment of blame by one on the other, as predicted by the then CAG, Shri A.Baksi, when the proposal for transfer of accounts was made to him. One of the advantages claimed by Government for departmentalisation of accounts, both in discussion with CAG and later in the Parliament, namely, speedy compilation of accounts and presentation of the Finance Accounts was not fully realised.

ANNUAL APPROPRIATION ACCOUNTS

Classified statements of grants and expenditure for a financial year, exhibiting the excess or saving, as the case may be, over the final Grant/Appropriation Accounts for the Government of India - were prepared by the AGCR. The Appropriation Accounts and Audit Report thereon formed a single document till 1961 and the latter was issued as a separate publication from 1962 onwards. Till 1960-61 they were prepared by sub-heads treated as units of appropriation. From 1961-62 the form of presentation was revised with the concurrence of the PAC and the accounts were prepared by group heads with a view to eliminate unimportant details and also to enhance their usefulness. The inclusion of 'Stores Accounts' below the accounts of the respective grants was discontinued. Instead, a synoptic statement was included under a separate section in the Audit Report. The inclusion of 'Statement of Expenditure on Important New Works' as Annexure to the Accounts was also discontinued. Instead, a consolidated 'Review', bringing out, for each Ministry/Department (a) the number of important works taken up during the year without specific provision of funds in the Budget and (b) the number of works on which expenditure was incurred in excess of the sanctioned estimates, etc. was included in the Audit Report. The earlier practice of detailing minor irregularities, losses, writes off etc. as 'notes' below the Appropriation Accounts of the respective grants was discontinued. Instead, a consolidated paragraph in respect of each Ministry/Department was included in the Audit Report under the heading "Other Irregularities, Losses etc." Consequent upon the decision to change the caption of the Audit Reports with effect from 1969-70 accounts, the certificate of the CAG recorded below the Summary of the Accounts and in the letter forwarding the final printed copies of Accounts was revised. Exhibition of expenditure separately for plan and non-plan was dispensed with in 1972. The practice of calling for explanations for variations in respect of each and every sub-head/group head was dispensed with and the explanations were called for group-heads only by using the best of discretion from 1972-73. The Accounts for the years 1948-49 to 1957-58 were finalised during a time span varying from 40 months to 16 months. While the maximum of 40 months was taken for the year 1950-51, the time taken for preparation declined progressively, taking 16 months for the year 1957-58. During the period 1958-59 to 1975-76, 10 to 13 months were taken for finalisation and the average time lead was around 11 months. The CGA took 10 to 17 months - 10 months for 1981-82 and 1982-83 and 17 months for 1976-77 and the average time lead taken during the last four years was 12 months.

AUDIT AFTER SEPARATION OF ACCOUNTS

With the departmentalisation of accounts in Central Ministries/ Departments and formation of pay and accounts offices, vouchers and other accounting records that were earlier received in audit were retained in about 177 pay and accounts offices and 551 drawing and disbursing officers with cheque drawing powers. Consequently the system of central audit which was in vogue for nearly sixty years ceased to exist and audit was confined only to local audit/inspection from 1976-77. The scope and extent of audit applied by the AGCWM in regard to the PAOs of the Department of Food, Rehabilitation and Supply, where separated accounting system was established in 1955, was adopted initially as the basis for carrying out local audit/inspection, which covered Ministries/Departments of Central Government (Civil) under the audit control of this office, departments, offices etc. of the Delhi Administration and all missions and posts abroad except those audited by the Directors of Audit, London and Washington. In addition, the accounts of certain non-government bodies or authorities receiving grants-in-aid and loans and administratively controlled by the Ministries of the Central Government and Delhi Administration were audited. Audit of some offices falling under the jurisdication of other Accountants General/Directors of Audit but located in Delhi/New Delhi was also conducted. The resident audit parties in BSF and CRPF organisations were discontinued after departmentalisation of accounts. In 1981, the scope and extent of audit of the departmentalised pay and accounts offices and cheque drawing offices were finally decided. In addition to scrutiny of accounts records, vouchers etc., local audit was directed towards testing the adequacy and efficiency of internal checks as also the efficacy and effectiveness of working of the system. The local audit parties were required to check the transactions relating to the months selected, cases and records covering the period since last inspection, the efficiency of the working of internal audit units and carry out review of control records. While the checks required to be exercised in respect of the first three categories were applied during the annual audit of pay and accounts offices, those which fell under the last category were carried out by a horizontal inspection and critical review of all the control records in the pay and accounts offices under each Ministry, once in three years. Audit of sanctions to the payment of grants-in-aid was done in the main office and audit of payments in the pay and accounts offices. Check of utilisation and audit of effectiveness of expenditure, on the other hand, was conducted in the office of the sanctioning authority. For the smooth execution of audit under Sections 13 and 15 of the CAG's (DPC) Act in the office of the sanctioning authority voucher-wise details of the grants-in-aid paid in a year were collected from the PAOs. A list of important and heavy transactions was prepared from the records of PAOs during the local audit for an in depth examination with reference to the purchase files and other related documents available in the offices of the drawing/disbursing officers, to render the audit of contingent expenditure more effective. In view of the dispersal of records in the pay and accounts offices and drawing/disbursing offices for the same type of transactions, a sequential local audit of the PAOs and DDOs was arranged. Checks exercised during local audit of the DDOs were limited in scope and confined to verification of the correctness of the net amount drawn and shown in the pay bill registers or copies of the paid vouchers for the selected months with the amount noted in the counterfoils of cheques, verification of the entries in the cash books and other relevant records with reference to the amount noted in the office copies of the vouchers, verification of entries relating to the paid cheques in the copies of the bank scrolls with the amount noted in the counterfoils of cheques or other accounts record. Items of work to be carried during local audit of the pay and accounts offices were more extensive. Duration of audit ranged from 12 to 15 days and that of DDOs with cheque drawing powers 3 to 5 days. The local audit party for audit of pay and accounts offices comprised two SOs and for DDOs with cheque drawing powers only one SO but both type of parties had 50% supervision of the AOs.

EXPANDED LOCAL AUDIT

The local audit jurisdiction of the Outside Audit Department extended to 1307 units in 1976 and the group was organised into two wings, each under the charge of a Sr. DAG and Audit Officer at headquarters. While Wing I had 3 sections at headquarters, 2 ECPA parties and 22 field audit parties for auditing 1253 units, Wing II had one section at headquarters, 2 ECPA parties and 11 field audit parties for auditing 54 units. The total sanctioned strength of the group was 64 SOs, 75 SGArs/Ars and 12 clerks. Each local audit party consisted of 1 SO and 2 auditors or 2 SOs and 1 auditor depending upon the importance of the audit. 17 field audit parties, 4 ECPA parties were identified and brought under the latter category. Wing I dealt with general, administrative and policy matters relating to OAD, prepared audit programmes and coordinated the work of the entire outside audit department, which carried out local audit and inspection of all the Ministries of the Government of India under its audit control, except Ministry of External Affairs, Ministry of Education and Social Welfare and the Ministry of Science and Technology, and coordinated the work relating to All India reviews. The headquarter's OAD section programmed local audit according to the prescribed periodicity with the approval of the group officer, exercised control over the actual execution as scheduled, watched timely issue of inspection reports and replies thereto, identified the paragraphs for inclusion in Audit Reports and submitted them to the group officers/ Director of Audit at the earliest possible stage and attended to all correspondence in connection with the issue of notices of inspection, issue of inspection reports, audit notes, objection statements etc. In so far as local audit of various Indian Missions and Posts abroad was concerned, Embassy Miscellaneous section arranged their periodical local audit by preparing and finalising an annual programme after taking into account the views of the Ministries of External Affairs and Commerce and Industry. 84 embassies/missions located in Asia, Australia and Africa were under the audit jurisdiction of AGCR. In addition, there were 6 tourist offices in East Asia, Australia and West Asia. Units of Government companies and autonomous bodies in these geographical areas were also subsequently added. The periodicity and duration of local audit of missions/posts, which was earlier based on the overall expenditure was revised in March 1974, when the annual contingent expenditure became the basis. The monetary limits for regularising periodicity of audit were revised in 1978, 1980 and 1981. The embassy audit parties comprised of 2 SOs and 1 supervisory officer from IAAS selected by the CAG. A system of central review of vouchers of all Missions abroad in the office of the Controller of Accounts, Ministry of External Affairs was introduced in 1983. From March, 1986, a new quantum of check was prescribed by which all the vouchers received from all the missions in a year were audited centrally by two resident audit parties, who also collected background material in regard to the expenditure incurred by the missions with copies of important sanctions, orders and other specific instructions which could be of use to the local audit parties during the local audit of a Mission.

The strength of field parties fluctuated from time to time depending upon the availability of requisite staff. The local audits were so programmed as to ensure that audit of bodies and authorities selected under the various Sections of the CAG's (DPC) Act, 1971, or entrusted under any law made by Parliament and reviews of schemes selected were completed according to prescribed schedule. The remaining staff was then deployed on the normal OAD work, phased suitably.

The number of Institutions for audit under section 14 of the Act fluctuated from 78 to 114 during 1972-73 to 1981-82 and stood at 152 in 1982-83. After raising of the limit of the grant to Rs. 25 lakhs from the accounts for the year 1983-84 and onwards, there were 16 institutions/bodies in 1983-84, 20 in 1984-85, 16 in 1985-86 and 18 in 1986-87 and 1987-88. In the case of three institutions, in respect of which the accounts were awaited, identification was yet to be made. As on 31st March, 1989 audit of two institutions/bodies for 1986-87 and 1987-88 and 9 for 1987-88 remained to be completed. Out of 15 sanctioning authorities *viz.* Ministries/Departments in respect of which audit under Section 15 of the Act was to be completed in 1987-88, seven had been completed and eight were yet to be completed. The number of Autonomous Bodies, the audit of which was entrusted under Section 19(2) and 20(1) of the Act ranged from 43 in 1981-82 to 52 in 1988-89.

RESTRUCTURED OFFICE

In April 1985, there were 8 headquarters sections and 51 field parties for civil audit, 8 headquarters sections and 39 field parties for revenue audit and 1 headquarter section and 6 field parties for embassy audit. The Civil OAD sections/parties were organised into four groups and each group was entrusted with audit of specific Ministries including attached/subordinate offices under them and autonomous bodies/institutions under their control. Group-wise distribution of strength and functions are given in table 2 below :

Group & Strength	The headquarters sections and their area of work
Group-I J.D. (Inspn. Coord). AOs -7 AAOs/SOs-2 Sr. Ars./Ars. - 30	OA-I Coordination work regarding policy and consolidation of staff proposals; Ministry of Finance (other than Deptt. of Re - venue); Rajya Sabha and Lok Sabha Secretariat; Prime Minister's Secretariat; President's & Vice President's secretariat. OA-VIII - Checking of Finance Accounts and Appropriation Accounts.
Group-II JD(Inspn. Civil-I) AOs. -7 AAOs/SOs-18 Sr. Ars./Ars. - 26	OA-IV Programming of Group - II; Ministries of Health and Family Welfare, Information and Boradcasting, Social Welfare, Planning and Law and Justice.
Group-III DD(Inspn. Civil. II) AOs. -10 AAOs/SOs-26 Sr. Ars./Ars. - 36	OA-II Ministries of Education and Culture and Sports. OA-VI Ministries of Labour and Employment and Home Affairs. Programming for Group III.
Group -IV DD (Delhi Admn. & DDA) AO -12 AAO/SO-31 Sr. Ars./Ars.-43	OA-III All Departments of Delhi Administration; Public Sector Banks in respect of certain schemes; Audit on behalf of other State AsG. OA-VII Audit of DDA's offices; Programming for Group -IV; Residual work of CSIR and Department of Scientific Departments.

Table 2

The number of units covered in local audit during 1983-84 and 1984-85 was 361 and 483 respectively out of a total of 1096 and 1403 to be audited. The coverage worked out to 32.94 per cent and 34.42 per cent only mainly due to shortage of staff and shift in emphasis for scheme reviews and audit of autonomous bodies/institutions. The shortage in the cadre of AAOs/SOs was around thirty-three and one third per cent. The revenue audit group, under the group charge of a JD consisted of 7 headquarters sections and 26 local audit parties for income tax, 1 headquarter section and 9 audit parties for central excise and 4 parties for customs. The headquarter section and the field parties were supervised by 37 audit officers. The embassy audit group was under the group charge of a JD, who was assisted by 2 AOs, 6 AAOs/SOs and 7 Sr. Ars./Ars. The overall strength of the office in March 1985 was 993 - 14 IAAS, 93 AOs, 250 AAOs/SOs, 410 SGArs/Ars, 78 clerks, 20 stenos and 128 group D.

BIFURCATION

A new office - Director of Audit-II, Central Revenues was formed in May 1985 for audit of receipts and expenditure of departments of Delhi Administration, DDA and other autonomous bodies under the control of Delhi Administration, DTC, Delhi Small Industries Development Corporation, Delhi State Civil Supplies Corporation, Association of State Road Transport Undertakings and 11 units of State Government companies and for dealing with accounting and entitlement functions as PAO (Audit). Shri A.K. Jain was appointed as the DA who was assisted by three Group officers and 336 officers and staff - 27 AOs, 72 AAOs/SOs, 172 Sr. Ars/Ars and 32 clerks, 5 stenos, 4 record keepers and 24 group D, engaged on these items of work were transferred to the new office. DACR-II was made responsible to prepare the Audit Report on the Delhi Administration. Both the offices had a common cadre, which was administered by DACR-I and they were housed in the same building with common facilities. The sections in the new office were organised into four groups. The Director held the direct charge of Report section and was assisted by three group officers - JD/DD (Administration and Receipt Audit) supervised the administration of the office and the receipt audit work connected with sales tax and other revenues. JD/DD (Inspection) supervised local audit/inspection of all civil units as well as public works units and JD/DD (Accounts and Commercial) supervised the accounts and entitlement functions and local audit of the various commercial units. The total strength of the office at the time of its formation, was 406 (33 AOs, 90 AAOs/SOs, 196 Sr. Ars/Ars, 38 clerks, 6 stenos, 4 record keepers and 39 group 'D'). The OAD wing of DACR-II had 587 units to be audited - 317 annual, 250 biennial and 20 triennial. The number of units covered in local audit was 242 in 1985-86, 261 in 1986-87 and 196 in 1987-88 and the average was 233 units per annum. The coverage was between 31 per cent and 22 per cent only mainly due to shortage of staff (17 to 19 AAOs/SOs which worked out to 43 to 48 per cent) and shift in emphasis for scheme reviews during these years. The number of inspection reports issued during 1985-86 to 1987-88 ranged from 281 to 207 and the number of paras 2955 to 1578 and the average turnover per year was 214 inspection reports and 2294 paras. 1466 inspection reports and 9725 paras were outstanding for settlement on 31st March, 1988.

After the formation of the office of DACR II, the OAD Wing of DACR-I comprised of three groups; Group I conducted the audit of the Ministry of Finance, audit of Appropriation and Finance Accounts and coordinated the work of all groups in OAD Wing, Group II, Ministry of

Health, Department of Social Welfare, Ministry of Law and Justice and Department of Planning including 17 autonomous bodies attached to them, Group III dealt with the Ministry of Human Resources Development, Home Affairs, Department of Personnel, Public Grievances and Pensions. In March 1988 there were 8 headquarters sections and 30 parties with a sanctioned strength of 34 AOs, 59 AAOs/SOs, 92 Sr Ars/Ars and 105 clerks. The number of units covered during local audit in 1986-87 was 314 and 1987-88 - 295. The turn-over of inspection reports ranged from 112 reports with 2392 paras in 1984-85 to 114 reports with 1332 paras in 1987-88. The average number of inspection reports issued was 133 with 1461 paras. 1224 inspection reports and 8738 paras were outstanding for settlement on 31st March, 1988.

In March, 1988, the strength of the Office of DACR-I was 1189 (22 IAAS, 117 AOs, 270 AAOs/SOs, 488 Sr. Ars/Ars, 108 clerks, 25 stenos, 20 record keepers, 8 others and 131 group 'D'), while that of DACR-II was 443 (5 IAAS, 36 AOs, 91 AAOs/SOs, 228 Sr. Ars/Ars, 41 clerks, 8 stenos, 4 record keepers and 30 group 'D'). The expenditure of DACR -I for the year 1987-88 was Rs. 228.89 lakhs, which constituted 0.02% of the expenditure and receipt audited by the office. The expenditure of DACR-II was Rs. 107.48 lakhs, which constituted 0.09% of the expenditure of the auditees by him.

AUDIT REPORTS

As the Principal Audit officer for transactions of Central Govt. the AGCR/DACR consolidated and finalised the material for Audit Report (Civil) of the Union Government from different sources, *viz.*, his own important audit findings as well as those contributed by AGCWM/DACWM and Accountants General dealing with Central transactions in each State. Except for the year 1948/1949, when only a Memorandum showing the financial irregularities was submitted, in view of the serious dislocation caused after the partition of the country, regular Reports were submitted for all other years. Twelve (1960-61 Report) to thirty seven months (1952 Report) were taken to finalise them for the years 1947 to 1961 and the average time taken was around 25 months after the close of the financial year. While the number of pages in each Report varied from ten (1948) to 116 (1960), the number of chapters ranged from one (1948) to five (1953) and the number of paras 18 (1954) to 96 (1960). In all 620 paras were included in the Audit Reports 1950 to 1961 - 172 contributed by AG, FIS/CAO, FRS/DA, FRSCS & M/AGCWM and 448 by AGCR. The Reports and Accounts were brought out as separate compilations from 1962 onwards, which

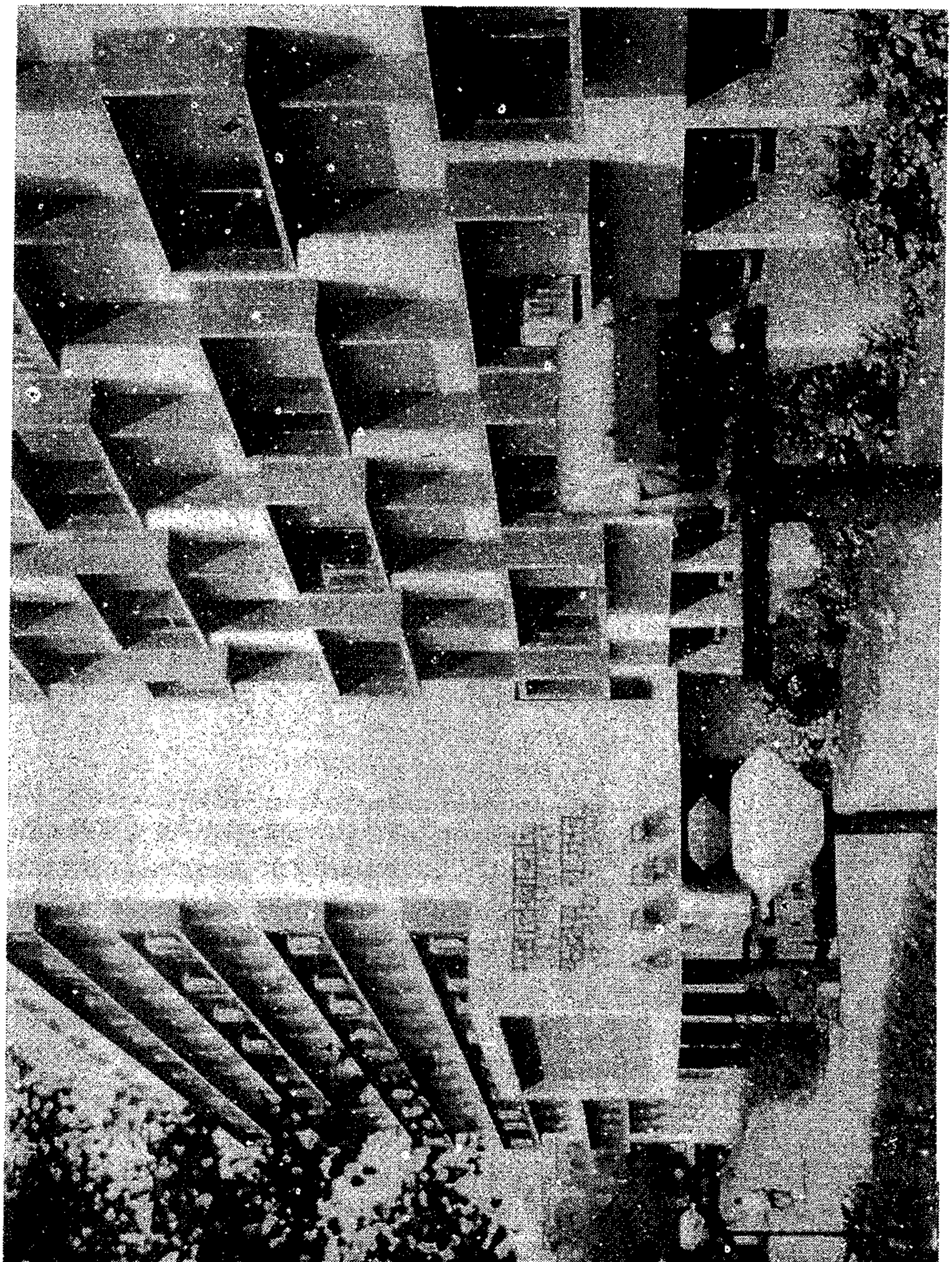


Fig. 21.1: Office of the Accountant General/Director of Audit, Central Revenues I and II, New Delhi

reduced the time lag in submitting the Reports. While 13 months were taken to present 1962 Report, 10 (1964, 1965, 1966) to 12 months (1967-68, 1968-69 and 1969-70) were taken for finalising ARs for the years 1962 to 1970-71. Presentation of the AR during the Budget Session of Parliament enabled the Members of Parliament to make use of the material available therein and effectively participate in the discussions on Demands for Grants. The number of pages in the Reports varied from 146 (1970-71) to 239 (1962). The number of chapters ranged from 8 (1970-71) to 13 (1962) and the number of paras from 57 (1970-71) to 155 (1966), which was signed by Shri S. Vasudevan and countersigned by Shri S. Ranganathan.

Reviews based on efficiency-cum-performance audit, were first featured in the Audit Report 1962, namely, paras on exhibition of Indian goods abroad, contracts placed by DGSD, iron and steel equalisation fund, Hindustan Shipyard, Fertilizer Corporation of India Limited, Hindustan Antibiotics Ltd., shipping development fund and Khadi and Village Industries Commission. Reviews appeared regularly in the subse quent year's Report which covered performance of autonomous bodies and departmental undertakings, stores purchase system, horizontal study of organisations/institutions of the same kind or under common control and execution of development schemes. 2 (1968 Report) to 9 reviews (1965 Report) and an average of 5 reviews per annum were included in the Reports. In all, 55 reviews containing 105 paras appeared in 11 Audit Reports from 1962 to 1970-71, 21 contributed by AGCR, 18 by AGCWM and 16 by the State Accountants General, including Director of Commercial Audit. The reviews were more clusters of paras on transaction audit rather than in-depth studies of efficiency-cum-effectiveness audit. Reviews on various developmental schemes became more pronounced from the AR 1971-72 onwards. The number of pages in each year's Report ranged from 147 (1971-72) to 549 (1980-81 Report in two volumes) in 8 chapters, which was signed by Shri M. M. Mehta and countersigned by Shri Gian Prakash. The paras ranged from 46 (1983-84) to 61 (1980-81 in two volumes and 1981-82) and reviews 9 (1977-78) to 15 (1980-81). The number of paras ranged from 56 (1976-77 in two volumes) to 139 Paras (1986-87 in four volumes - two signed by DACR - Shri S. S. Roy Choudhury, one by DACR II - Shri P.K. Lahiri and one by DACWM II - Shri S. Sathyamoorthy - all countersigned by Shri T.N. Chaturvedi.

While most of the reviews were incorporated in the main ARs, at times, when some of them could not be finalised in time for presentation of Reports within prescribed time schedule, supplementary Audit Reports incorporating reviews were submitted later as in 1972-73, 1973-74 (2) and

1975-76. When some delay was anticipated in the finalisation of the Appropriation Accounts of a particular year Reports were submitted in advance as recommended by the PAC in 1952-53, as in the years 1976-77, 1978-79, 1979-80 and 1980-81. Also to bring out special reviews, as in 1985-86, 1986-87 and 1987-88, supplementary reports were submitted. Despite alround increase in the number of pages, chapters, paras and reviews, main Audit reports were presented within 12 months after the close of the year. After the responsibility for preparation of Appropriation Accounts and Finance Accounts was taken over by the Controller General of Accounts from the year 1976-77, the Reports were processed in 10 months in few years. Supplementary Reports were processed in three to nine months after the submission of the regular Reports. From the Reports for the year 1983-84, the Audit Reports were printed on A - 4 size paper with double column. Separate Reports on Delhi Administration and on Autonomous Bodies were pesented from 1984-85. The Audit Report - Civil, 1984-85 was issued in three volumes on 28th April, 1986 - volume I on Union Government (Civil), volume II on Delhi Administration and volume III on Other Autonomous Bodies, which were signed by Shri D.K. Chakravorty. 1985-86 Report was issued in three volumes - volume I on Union Government (Civil), Volume II on Delhi Administration and Volume III on Other Autonomous Bodies which were finalised on 4th May, 1987, and signed by Shri S.M. Patankar (Vol. I & III) and Shri A.K. Jain (volume II). A supplementary Report for 1985-86 carrying a review on Central assistance for relief of distress caused by drought and flood finalised on 3rd December, 1987, was signed by Shri Rajendra Kumar. A separate Audit Report was issued on Scientific Departments, which was signed by Shri S. Satyamoorthy, DACWM II. 1986-87 Reports were issued in numbered series and in four publications on Union Government Civil (No. 1), Autonomous Bodies (No. 9 & 11), Review on Public Debt and System of purchases in DGS & D, (No. 10) during the period 14th April, 1988 to 1st August, 1988. These reports covered 265 pages and contained 79 paras and 17 reviews. Report on Delhi Administration (No. 8) was signed on 12th April, 1988 by DACR II. Report on Scientific Department (No. 7) was signed on 9th March, 1988 by DACWM II. For the year 1987-88 seven Audit reports, two on Union Government (Civil) and one each on Union Government - Other Autonomous Bodies, Municipal Corporation of Delhi, Delhi Administration Union Government (Civil) - Export Promotion Scheme and Union Government (Civil) - Scientific Departments were finalised during 7th March, 1989 to June 1989 and were presented to Parliament during 9th March, 1989 to 18th August, 1989. The Reports covered 395 pages and incorporated 25 reviews (with a total number of 318 sub paras) and 204 individual paragraphs. The Report on Municipal Corporation of Delhi was prepared for the first time on the basis of the results of audit conducted under Section 14(2) of Act and included four reviews. While two of the Reports (No. 1 and 9 of 1989) were signed by DACR I, one Report (No. 13 of 1989) on MCD was signed by OSD, office of the DACR I, one (No. 8 of 1989) on Delhi Administration by DACR II, two (No. 12 and No. 16 of 1989) on Union Government (Civil) by DACWM I and one (No. 7 of 1989) on Scientific Departments by DACWM II.

MIX OF REPORTS

In all, 66 reports containing 3100 paras and 178 reviews were presented to eight Lok Sabhas during 1950 to 1986-87. AGCR/DACR contributed 2188 paras and 107 reviews (which included 41 contributed by other Accountants General and 18 All India reviews), AGCWM/DACWM contributed 798 paras and 56 reviews (which included 22 All India reviews), DACR II contributed 74 paras and 10 reviews and DACWM II 40 paras and 5 reviews. 18 All India reviews were contributed by AGCR/DACR, on topics covering the states and the Union Territories. These were National Smallpox Eradication Programme and National Filaria Control Programme (1971-72), Crash Programme for Rural Development (1972-73), Relief of distress caused by natural calamities (1973-74), Intensive Agricultural District Programme (1979-80), National Malaria Eradication Programme, Family Welfare Programme - Assistance from the United Nations Fund (1980-81), Scheme for Welfare of Scheduled Tribes and other Backward Classes (1981-82), Rural Health Programme (1982-83), Accelerated Programme of Welfare for Women and Children and Nutrition Programme (1983-84), Family Welfare Programme and Rehabilitation of Bonded Labour (1984-85), Universal Elementary Education in the age group of 6-14 and Adult Education Programme in the age group of 15-35, (1985-86-Volume I), Central Assistance for relief of distress caused by drought and flood, (1985-86 - Supplementary), National Programme for control of blindness, National Tuberculosis Control Programme, National Leprosy Eradication Programme, Modernisation of State Police Forces, (No. 1 of 1988 for the year ended 31st March, 1987)

TRENDS IN REPORTING

AUDIT REPORTS 1986-87 (UNION GOVERNMENT CIVIL)

The Audit Report* on Union Government, Civil, contained 68 paragraphs including 9 reviews, and 33 did not incorporate the

* Report No. 1 of 1988 signed by Shri S.S. Roy Choudhury and countersigned by Shri T.N. Chaturvedi on 14th April, 1988 and presented on 25th April, 1988.

responsiveness of the Ministries concerned. The overall deficit was Rs. 8261 crores, against the budget estimates of Rs. 3703 crores and revised budget estimates of Rs. 8285 crores. - the revenue deficit was Rs. 7776.04 crores as against Rs. 5888.23 crores during 1985-86. The supplementary provision of Rs. 6631.44 crores obtained during 1986-87 constituted 3 per cent of the original provision of Rs. 210226.18 crores. In 20 cases, the supplementary provision of Rs. 117.05 crores obtained was unnecessary and there were excesses amounting to Rs. 44.76 crores over the sanctioned provision in 15 cases, which required regularisation by Parliament.

Of a total fleet of 50 aircraft helicopters held by the Directorate of Agricultural Aviation, whose operations include locust control and aerial dispensing of insecticides, fertilizers and seeds and functioning as a fire fighting brigade, 21 were serviceable and others had been grounded one to 19 years ago, of which 15 had been declared as beyond economical repairs - 11 before completion of their normal life and 14 aircraft grounded were awaiting repairs for periods ranging from two to ten years. Avoidable payments of cash assistance of Rs. 21.68 lakhs for export of Individual Quick Frozen (IQF) shrimps and Rs. 9.72 lakhs for export of perfumed hair oil, were mentioned.

A test check of payments of cash compensatory support made by the Chief Controller of Imports and Exports revealed several instances of overpayments; against an overpayment of Rs. 269.16 lakhs pointed out during 1983-84 to 1985-86, Rs. 29.93 lakhs were only recovered and the risk of their becoming unrecoverable loomed large. Instances of firms not responding to demand notices issued were noticed which revealed that firms had either closed down their business or were not intentionally refunding the amount. Extra payment of cash assistance of Rs. 406.04 lakhs on export of frozen fish, frozen lobster tails and whole cooked lobsters during April 1984 to March 1987 was noticed, excess air freight assistance on the export of leather products - till June 1986. The air freight subsidy on export of leather products made by Ministry of Commerce was related to the actual air freight paid, ranging from 30 per cent to 40 per cent of the air freight with a further overall ceiling of the percentage of f.o.b. value till June 1986 which was modified to relate to the f.o.b. value of exports from July 1986 and an examination in audit of 38 cases, where cash compensatory support was allowed on the export of some categories of leather products, valued at Rs. 2.27 crores, revealed that the subsidy paid resulted in adventitious gain of Rs. 8.78 lakhs to the exporters over the quantum that would have been admissible under the rates in vogue till 30th June, 1986. Instances where assistance received towards airfreight was over and above the actual air freight paid were noticed. Inadequate planning and failure to consult the Railways before the construction work in Madras Export Processing have led to redundancy of expenditure. The delay in taking a decision by Ministry of External Affairs in approving the purchase proposal of a building for housing the Chancery in Hong Kong resulted in avoidable expenditure of Rs. 54.72 lakhs. In contravention of the instructions, the High Commission of India, London, held the hired premises without renewing the lease deed for nearly 5 years resulting in an expenditure of Rs. 0.90 lakh. 17 regional passport offices out of 21 in India did not collect the fee for emigration endorsement between October 1985 and October, 1986 resulting in a loss of revenue of Rs. 62.86 lakhs.

The Government of India released a grant of Rs. 3572.93 lakhs during 1980-81 to 1986-87 under National Programme for Control of Blindness to the States/Union Territories but the grants released were not fully utilised. Performance in activities like upgradation of Primary Health Centres, District Hospitals, Mobile Units and cataract operations was below the target. No proper mechanism was evolved at the Centre and at the state level to monitor and evaluate the programme from time to time.

Under National Tuberculosis Control Programme, the matching contribution by some states was much less than the central assistance during 1980-81 to 1986-87. In the case of sputum examination, the district TB centres achieved targets upto 49 per cent during 1983- 84 to 1986-87. Detection of new cases fell short of the targets by more than 50 per cent in some states during 1982-83 to 1986-87. District TB centres had not been established in 65 districts in the country. Due to shortage of trained medical and para-medical staff, 1635 posts in 14 states were manned by untrained staff. An independent evaluation of the programme has not been done so far.

Under National Leprosy Eradication Programme, against the targeted coverage of 90 per cent of the endemic population by the end of Sixth Five Year Plan, the coverage was only 64.20 per cent. The respective cumulative targets upto 1986-87 was not achieved in 14 States/Union Territories in cases detected, 16 in treatment and 18 in discharge activities. Shortfall of more than 20 per cent of the sanctioned strength of medical officers and staff was reported. While considerable shortage of medicines was noticed in some states, there was excess procurement in some other states.

Under modernisation of state police forces, out of 21 states, the perspective plans of 7 states were approved by the Ministry of Home Affairs but the grant or expenditure was not in conformity with the approved plan. The revised plans of 6 states were not approved by the

Ministry. Out of Rs. 59.45 crores released by the Central Government, Rs. 54.85 crores were utilised by various state Governments during 1980-81 to 1986-87. 5 state governments had not contributed towards the scheme. Physical targets were not fixed by the state governments. None of the state governments except Madhya Pradesh could achieve 100 per cent coverage of police stations by providing wireless or telecommunication system. The shortfall in mobility at police station level in 15 states ranged from 3 to 100 per cent. Regional Forensic Science Laboratories were not established in most of the states. The existing laboratories were not strengthened with modern sophisticated equipment and skilled staff. Equipment costing Rs. 3.84 crores were lying idle; Rs. 1.68 crores were spent on items not covered under the scheme and Rs. 1.78 crores were diverted. The implementation of the scheme by the states was to be reviewed by the Ministry through periodical visits by a Central team. The central team had not visited all the states during 1980-87.

Dandakaranya Project : Against 36,673 displaced families resettled upto March 1986 in Dandakaranya Project, 25,253 families were in position and the remaining 11,420 families had deserted. The proportionate expenditure incurred on the deserted families worked out to Rs. 23.41 crores. Lands reclaimed at a cost of Rs. 36.27 lakhs were not put to any use. Lands measuring 15,587 acres were allotted to 4,933 families in Potteru area assuming that the land would be covered by perennial irrigation. Land covered by irrigation in 1986 was 2,040 acres only as the Potteru Irrigation Scheme taken up by the Government of Orissa in 1975, with funds provided by the Centre, was under construction and likely to be completed by 1989-90.

Festival of India : The audited statement of accounts and utilisation certificates had not been received for grants amounting to Rs. 196.92 lakhs released to various agencies under festival of India project. Brochures costing Rs. 45.12 lakhs were printed without inviting quotations. Sale account of 6050 copies of the book titled 'India' purchased at a cost of Rs. 7.44 lakhs was not maintained.

The performance of activities of the Directorate of Field Publicity was less than 50 per cent of the prescribed norms in film shows, photo exhibitions, oral communication, etc. during 1983-84 and there was no fixed norm for the song and drama programmes. No decision on the recommendation of the group in October 1985 for merger and reorganisation of sister organisations to effect savings in expenditure was taken.

The Solatium Fund scheme was implemented in a tardy manner. The fund has received a contribution of about Rs. 4.82 crores till 31st March, 1987 but disbursement of only Rs. 53.44 lakhs had been made.

Besides, Rs. 54.57 lakhs representing more than 50 per cent of the total allocation of Rs. 108.01 lakhs placed at the disposal of state governments was lying unutilised. The expenditure incurred on the publicity of the scheme was Rs. 1.64 lakhs, which was inadequate considering the publicity required for the success of the scheme. Failure to verify the antecedents of a foreign flag vessel and to adequately secure the advance freight resulted in substantial loss to Government which, besides loss of advance freight of $4,22,594, included additional charges for alternative arrangement to bring the cargo and deterioration in the quality of cargo and legal charges.

A general review of Ministry of Tourism by Audit revealed that against an increase of 220 per cent and 111 per cent in the outlay on promotional activities during 1985-86 and 1986-87 over the previous years, the increases in tourist arrivals were 1 per cent and 34 per cent and earnings in foreign exchange were 12 per cent and 21 per cent respectively. On the "follow the festival" compaign in the USA, an expenditure of Rs. 5.16 lakhs was incurred for projection through journals, which were considered as not so effective. The number of undistributed stock of the Indian diary 1987 at the end of November 1987 was 1176 valued at Rs. 1.38 lakhs. No training programmes were arranged by the Indian Institute of Tourism and Travel Management, set up in January 1983, in 1983-84. In 1984-85, 4 seminars and 4 executive development programmes were organised, but the number declined to 4 for a total duration of 22 days in 1985-86.

Losses in the stocking and sale of departmental publications : A test check by Audit revealed that 4.96 lakhs books/periodicals under 346 titles valued at Rs. 62.58 lakhs brought on stock by the Department of Publication under the Ministry of Urban Development prior to March 1984 were lying unsold for periods ranging between 3 and above 15 years. A selected review of 68 samples revealed that in respect of 19 titles the sales were less than 25 per cent of the copies printed, for 15 titles the sales were between 25 and 35 per cent and for 34 titles the sales were between 35 and 50 per cent of the number of copies printed. During 1984-85 to 1986-87 the number of copies sold were insignificant as compared to the number of copies available in stock. 34,271 books printed by various presses during 1980-81 to 1986-87 and earmarked for sale had not been released for sale by the Department so far. Reconstruction and repairs of three bridges, collapsed due to defects occurred due to sub-standard work, bad workmanship, lack of quality control and inadequate supervision, was estimated to cost Rs. 128 lakhs. A review on the working of Land and Development Office (L & DO) revealed that proper records to ensure timely and regular collection of revenue were not maintained; arrears of ground rent had increased from Rs. 184.80 lakhs in 1981 to Rs. 887.52 lakhs in 1986; failure to revise ground rent timely as per lease terms resulted in loss of revenue; land rates fixed in some cases were on the lower side as compared to the rates fixed by the Delhi Administration resulting in less realisation of Government's share of unearned income; 231 cases were pending in various law courts from one to 25 years; and Rs. 42 crores was re coverable in respect of cases pertaining to multi-storeyed buildings alone pending in High Court/Supreme Court. Construction of hotels on plots allotted to the Delhi Development Authority (DDA), New Delhi Municipal Committee (NDMC) and India Tourism Development Corporation (ITDC) at concessional rates, before Asiad 1982, was not completed on time. Other terms of allotment were also violated. Over Rs. 9 crores were due from the three organisations since May 1983/September 1986. There was absence of coordination between the L & DO, DDA and NDMC resulting in (*i*) cases of squatting remaining unnoticed for years together, (*ii*) unauthorised leasing out of lands and (*iii*) approval of site plans by the local bodies despite breaches of lease terms committed by allottees. Six construction divisions of Calcutta, under Central Public Works Department, utilised 2207 tonnes of steel bars mainly on construction of Government quarters in violation of the conditions of the grant, as these were meant for construction of houses for the lowest category of workers in mines, hospitals, foodgrain godowns, etc. Delhi Milk Scheme (DMS) established in 1959, was running on loss from its inception, except in 1969-70 and 1970-71 and provisional figures of the losses were Rs. 950 lakhs in 1984-85, Rs. 765.70 lakhs in 1985-86 and Rs. 740.38 lakhs in 1986-87. Against the installed capacity of 4.15 lakhs litres per day, production ranged between 3.25 lakhs litres and 3.77 lakh litres during 1982-83 to 1986-87. While production had declined by 8.28 per cent in 1985-86, as compared to 1982-83, expenditure had increased by 35.66 per cent during the same period. Increase in the procurement price of raw material, *viz.* raw milk, milk powder, butter oil, etc. was not matched by commensurate increase in selling price of milk. Maintenance of surplus staff resulted in expenditure of Rs. 70 lakhs per annum. Failure to procure raw milk in adequate quantity had resulted in heavy dependence on other raw materials for production of reconstituted milk so as to maintain production and supplies. There were several instances of ill-planned purchase of equipment. The equipment purchased were not put to use and were dis posed of or were awaiting disposal.

Other interesting cases were - blocking of funds due to sanction of grants-in-aid by several departments for the same purpose to the same agency, who retained the unspent balance of Rs. 41.75 lakhs and failure of the Department to obtain certificate of utilisation, non-installation of X-ray plant (Rs. 5.69 lakhs), non-utilisation of slide projectors (Rs. 1.09 lakhs), avoidable expenditure of Rs. 2.35 crores on continuance of manpower surplus upto August 1985, loss due to short receipt of steel from a supplier (Rs. 2.01 lakhs), non- utilisation of a labour community centre for the welfare of labour community built at a cost of Rs. 7.18 lakhs at Chandigarh and payment of excess agency commission of Rs. 1.36 lakhs on purchase of mingografs and loss of diesel oil (Rs. 15.24 lakhs) in sale of diesel generation sets due to omission to notify them in the sale tender.

DELHI ADMINISTRATION

The Report* contained 36 paragraphs including 3 reviews of which 27 were not responded to by the Administration.

National Leprosy Eradication Programme : There were deficiencies in planning, programming, organising and implementing the programme in the Union Territory of Delhi. Against allotment of Rs. 36.28 lakhs, expenditure of Rs. 5.72 lakhs only was incurred during 1980-81, 1982-83 and 1985-86 and no cash expenditure was incurred during 1983-84, 1984-85 and 1986-87. No survey was ever conducted to identify the endemicity areas requiring necessary facilities. During the years 1983-84 to 1986-87, 4,831 patients were identified. No leprosy control unit was set up and consequently upgraded leprosy centres, district leprosy centres, leprosy training centres, maintenance of voluntary leprosy beds, etc. as required under the programme, were not established.

Rs. 42 lakhs was drawn by the Directorate of Education, in violation of rules, to avoid lapse of funds although the money was not required for immediate use. The surplus staff of an aided school, which was closed in April 1982 had not been adjusted against any vacant post in aided/Government schools and was paid salary amounting to Rs. 17.92 lakhs by the Directorate of Education; their eligibility for absorption in Government/aided schools had not been decided even after a lapse of 5 years; their pay and allowances were being drawn against the grant-in-aid of the shcool, which had been closed in April 1982. Loan scholarships of Rs. 17.96 lakhs paid by the Directorate of Education during 1963-64 to 1983-84 could not be recovered by the Department due to ineffective pursuance. Re-invitation of tenders for a work by the Public Works Department (PWD) without materially changing the nomenclature of an

* No. 8 of 1988 signed by Shri P.K. Lahiri countersigned by Shri T.N. Chaturvedi on 12th April, 1988 and presented on 25th April, 1988.

item resulted in an avoidable expenditure of Rs. 10.05 lakhs; unsound and unrealistic technical terms of agreement resulted in additional benefit of Rs. 10.50 lakhs to the contractors. Extra expenditure of Rs. 1.70 lakhs was incurred due to irregular rescission of a contract for the construction of a 300 bedded ward block of a hospital by the Executive Engineer PWD. In another case of construction of a school building, the irregular rescission of the contract resulted in extra expenditure of Rs. 1.45 lakhs. No responsibility in either of the cases was fixed. Rehabilitation Services of Delhi Administration running 19 training-cum-production centres had not prepared annual accounts from 1976-77 onwards. Local Self Government Department of Delhi Administration had paid 181 loans aggregating Rs. 102.81 crores to the Municipal Corporation of Delhi (MCD), 129 loans aggregating Rs. 297.10 crores to Delhi Water Supply and Sewage Disposal Undertaking and 64 loans aggregating to Rs. 427.54 crores to Delhi Electric Supply Undertaking and most of the principal amount and interest accrued thereon had not been recovered for more than a decade. Submission of Annual Accounts of the Municipal Corporation of Delhi to the Delhi Administration was generally delayed and the Accounts for 1982-83 to 1984-85 were submitted to the Standing Committee of MCD in June, 1987. Recovery of Rs. 2.40 crores, the major portion (Rs. 2.32 crores) of which related to Delhi Development Authority, on account of additional police guards provided during 1964-65 to 1985-86 by the Commissioner of Police was outstanding. Wireless sets purchased through Directorate of Coordination (Police Wireless), Ministry of Home Affairs at a cost of Rs. 4.98 lakhs during December 1977 and May 1983 had been lying unused since their procurement as their workability was found to be below normal.

Construction of LIG Houses at Motia Khan : 288 lower income group (LIG) houses scheduled to be completed by the DDA in September 1982 had not been completed so far (October 1987) which blocked funds of Rs. 50.25 lakhs. Certain serious defects noticed during inspection by the Chief Engineer (quality control) were rectified by the contractor. A sum of Rs. 17.33 lakhs on account of compensation for delay, execution of sub-standard work and extra expenditure on the left over work by the contractor was yet to be recovered. LIG houses at Shalimar Bagh, scheduled to be completed by the DDA in May 1981 were still awaiting completion (September 1987). Serious defects noticed during inspection by the Chief Engineer in July 1985 were yet to be rectified in 186 houses. Inordinate delay in rectification of defects and completion of work resulted in blockage of investment of Rs. 32.57 lakhs.

Penalty of Rs. 1.90 lakhs levied on the contractor for the delay in the execution of work was not recovered. Under the contract for transportation of cement awarded to a contractor by the DDA on the basis of forged documents produced by him, short delivery of 15,716 cement bags valuing Rs. 6.79 lakhs was not detected in time and Rs. 26.41 lakhs on account of cost of cement bags, demurrage/wharfage charges, extra expenditure on the work left incomplete by the contractor, etc. were yet to be recovered and the case was under arbitration.

Receipts of Delhi Administration : The total receipts of the Union Territory of Delhi during the year 1986-87 amounted to Rs. 595 crores, an increase of 15 per cent over the previous year. 40 comments on non-levy or short levy of tax, duty, penalties and losses of revenue in the Union Territory of Delhi with a tax effect of about Rs. 68 lakhs, including penalty and interest were included in the Report. As a result of re-examination of some of the cases involved in these audit objections, the Department revised the assessment and raised a total demand of Rs. 1.07 crores on account of tax, penalty and interest. Under sales tax, short levy of tax due to non-detection by Department, of false/invalid declarations or interpolations in the declarations amounted to Rs. 5.69 lakhs in 12 cases, non-levy of penalty amounting to Rs. 14.23 lakhs in certain cases, short levy of tax due to non-detection of suppression of sales in 14 cases involved a tax of Rs. 8.78 lakhs, non-levy of penalties upto Rs. 21.30 lakhs on the dealers for suppression of turnover. Non-levy of penalty in sale/purchase by dealer of goods not covered by certificate of registration in 5 cases amounted to Rs. 8.59 lakhs. There was loss of excise revenue amounting to Rs. 3.50 lakhs due to incorrect endorsement made on a licence. As against 33,000 demand drafts valued at about Rs. one crore, received during 1985-86, the Department stated (October, 1987) that 17,152 drafts valued at Rs. 58.63 lakhs had been deposited into the bank and information in respect of the remaining drafts could not be supplied by the Department (October 1987). The Department was not even aware of the amounts due to it owing to non-furnishing of various returns by other states. Levy and collections of terminal tax and remittance of the receipts by the Agency into Government account, was not as per prescribed procedure. Terminal tax amounting to Rs. 152.72 lakhs from importers availing bill facilities, was outstanding as on 31st March, 1987. Recoveries due from checkpost staff on account of short realisation of tax due to various reasons, relating to the period upto 30th November 1985, amounted to Rs. 5.80 lakhs as on 31st March 1987. Weigh bridges at various checkposts had not functioned for about three years.

AUDIT REPORT* ON OTHER AUTONOMOUS BODIES

23 paragraphs including 5 reviews were included and 11 were not responded by the auditees.

Raja Rammohan Roy library foundation took the responsibility of assisting libraries all over the country in modernising their infrastructure, but its efforts were concentrated largely on supply of books to libraries and programme was almost confined to merely providing technical and financial assistance to libraries out of 29 objectives listed out in the Memorandum of Association.

Indian Council of Historical Research did not fulfil the conditions for the release of grants in many cases. Out of 93 research projects financed during 1978-79 to 1983-84, 75 projects remained incomplete and 137 out of 564 fellowships awarded were not covered under the rules. Out of 771 cases of study-cum-travel (contingency) grants, 579 cases remained incomplete; out of 192 completed cases, these were received only in 37 cases; in 74 per cent of the completed cases, the utilisation certificates and audited statements of accounts were not received. In most of the cases, the results of research were neither got evaluated nor utilised for promotion of historical research, as per provisions of the Memorandum of Association. The fellowship/research projects/foreign travel grants continued to be paid to the scholars, who had not completed projects allotted to them earlier. Out of 7 special projects assigned by the Government during 1972-75, one project involving a total expenditure of Rs. 31.11 lakhs was discontinued as per orders of the Government in September 1978 and none of the remaining 6 projects on which a sum of Rs. 135.76 lakhs had been incurred, were completed. The work relating to preparation of Survey Reports for formulating a long term programme of research promotion had made no progress since 1981. The first Review Committee, appointed by Government of India in June 1981 to review the work and progress of the Council with reference to its objectives and to enquire into the management and administrative procedures, submitted its report in October, 1982 and the Council took 4 years to examine the Report and submitted its comments to Government in January 1987, whose decision was awaited.

The National Council of Educational Research and Training had not prepared the profit and loss account for its publications, which precluded any conclusion as to whether text books produced by them were on 'no profit, no loss' basis. Provision of discount rate of 20 per cent instead of 22 1/2 per cent to the State Emporia included in the

* No. 9 of 1988 signed by Shri S.S. Roy Choudhury and countersigned by Shri T.N. Chaturvedi on 14th April, 1988 and presented on 25th April, 1988.

pricing formula in 1981 resulted in under pricing of text books to the extent of Rs. 48.95 lakhs during the years 1982-83 to 1986-87. There were 2 to 38 months delay by the Sales Emporia in remitting the sale proceeds to the NCERT resulting in loss of Rs. 37.15 lakhs to the NCERT. Though there was large accumulation of stores from 1974-75, no action had been taken to dispose them of. 2.80 lakh volumes of general books valued at Rs. 25.65 lakhs remained unsold for more than five years; 3.88 lakh volumes of obsolete titles valued at Rs. 12.44 lakhs were lying in stock. Review on the working of the Department of Policy, Research, Planning and Programmes of the NCERT revealed that 93 research projects were running behind the time schedule ranging from 1 to 18 years.

In the Indian Institute of Technology, Kanpur, in some of the doctorate courses, intake capacity ranging upto 90 per cent and in certain post-graduate courses, capacity ranging upto 67 per cent remained unfilled. Imported equipment valuing more than Rs. 22 lakhs had not been commissioned for more than 2 to 8 years. The Institute had surplus land of about 500 acres, which were not being put to use, like, agricultural establishment industrial estate having relevance to its research and development activities, despite recommendations by the Reviewing Committee in March, 1973.

Central Social Welfare Board had not taken up any specific programme for the family and for assistance in cases of unemployment, under employment, old age, sickness, etc. Grants and loans were charged as revenue expenditure and no record showing the amounts of loan included therein was maintained by the Board. Out of the loans given during 1978-79 to 1979-80 for specific purposes, Rs. 71.48 lakhs was still recoverable in March 1987. Necessary bond required to be executed by the grantee institutions to safeguard the interest of the Board was not got executed in any case under the Socio-economic Programme (Production).

In Calcutta Port Trust, conveyor system of fingerjetty for handling salt and sulphur at Haldia dock built at a cost of Rs. 124.38 lakhs was not commissioned. The scheme of mechanical handling of cargo at the finger jetty had to be given up and the expenditure of Rs. 41.55 lakhs incurred thereon proved infructuous. The ore and coal handling plants at Haldia during 1980—87 remained unutilised to the extent of 99 per cent to 100 per cent and 41 to 80 per cent respectively, which resulted in loss of revenue of Rs. 9874.75 lakhs. Construction of bunkering arrangement at Haldia for storage of iron ore was abondoned after incurring an expenditure of Rs. 79.99 lakhs, which became infructuous. Rs. 15.03 crores invested upto March 1986 in a fertiliser handling project at Haldia Dock had remained blocked owing to delay in completing the work awarded to a public sector firm in September 1976. The hire charges payable to the Railways by the Port Trust exceeded the amount of demurrage charges recoverable from consignees by Rs. 373.32 lakhs during 1981-82 to 1986-87. Chronic detention of wagons within the Port area due to delayed placement of wagons at the sidings, holding of damaged wagons, pilferage of wagon parts, etc. led to payment of excessive hire charges to the Railways. 4.09 lakh square feet of shed space on an average remained vacant upto October 1986 on the ground that a new policy of land utilisation and tenancy was being evolved, despite the recommendations of the working group appointed by the Port for use of storage space for pre-shipment cargo, which was not required. Thus, during April 1981 to October 1986 revenue to the extent of Rs. 263.98 lakhs was lost due to not letting out 6.79 lakh square feet of space of Grain Depot. Rs. 786.60 lakhs was incurred on dredging operation in the shipping channel leading to Haldia, between December 1977 and May 1986 and was abandoned in June 1986 and the objective of the scheme *viz.*, a draft of 12.2 metres by 1980 was not achieved. The actual draft during 1982-83 to 1986-87 ranged between 5.72 and 5.22 metres.

A radio therapy treatment planning system, imported from UK in November 1983 at a cost of Rs. 10.35 lakhs was commissioned only in October 1987 at the Regional Cancer Centre, Trivandrum. During June 1985 to August 1987, Jute Manufactures Development Council, Calcutta incurred an expenditure of Rs. 6.40 lakhs on rent etc. of 2 hired flats having a total carpet area of 7500 square feet. While during June 1985 to June 1986, 3800 square feet remained completely vacant, during June 1986 to the date of shifting of the office in August 1987, 2972 square feet remained vacant. Due to hired space remaining vacant, Rs. 5.69 lakhs, paid as rent, proved to be infructuous.

REVIEW ON PUBLIC DEBT

The Report* brought out that the revenue account deficit increased sharply from Rs. 9,842 crores in 1988-89 resulting in borrowing and deficit financing on a much larger scale; non-plan expenditure had grown faster than revenue receipts and interest payments, defence and subsidies constituted an estimated 56.6 per cent in 1988-89; the continuous growth of treasury bills indicated that they were, in effect, being used as long term financing instrument by the Government; the estimated borrowings of Rs. 7,000 crores during 1988-89 would be barely sufficient to meet the interest payments of Rs. 7,027 crores on internal debt alone; also, poor

* Report No. 10 of 1988 signed by Shri S.S. Roy Choudhury and countersigned by Shri T.N. Chaturvedi on 11th May, 1988 and presented to Parliament on 29th July, 1988.

resource generation by public sector undertakings and mounting tax arrears made the management of Government's internal debt extremely difficult; the external debt increased by 80 per cent over a six year period and stood at Rs. 20,299 crores at the end of 1986-87. The servicing and repayments of the debt would cast an additional burden on account of the declining value of the rupee; substantial commitment charges had been paid on external assistance authorised but not utilised, although no details were readily available for such charges arising out of avoidable delays in loan and credit utilisation and increasing size of the external debt and its servicing put considerable pressure on the balance of payments. The Ministry's response was that the para was on policies of Government - as distinct from implementation of policies - and it would be useful if alternative workable policies to solve the problem of increase in public debt were spelt out. The Audit reaction was that it was intended to provide analysis for Parliament and Governmnt to take such corrective action as might be required and also to highlight whether the debt management had been carried out with due regard to economy and efficiency and it was not for Audit to outline the "alternative workable policies". While the reply of the Ministry was a betrayal of the responsibility of the Administration to defend the Government of the day under the Indian system, the Audit reply summed up the Indian system professed and practised over a century.

Review on System of purchase in the DGS & D brought out that although, as a central purchase organisation, the DGSD was arranging purchases valued at about Rs. 3,000 crores annually, the real effort of the DGSD in establishing sources of supply at competitive rates was confined to about 50 per cent of the total purchase since a large volume and value of purchases were made from public sector units and from departments of the Central and State Governments. The time taken from the receipt of an indent till acceptance of a tender, termed as coverage of indents, was more than over 3 months in about 70 per cent of the cases. A large percentage of cases were covered after 6 months of the receipt of the indent, and, some cases even after a year. Of the 2992 indents outstanding, as on 31st March, 1986, 888 were pending for more than 6 months. As against the maximum period of 12 working days allowed between the date of receipt of indent and date of issue of tender enquiry, in a sample of 586 cases reviewed by Audit, there were delays ranging between 21 days and above 3 months in 212 cases. Although the date of delivery of stores, stipulated originally in the contract, was deemed to be the essence of contract, in only about one third of the contracts, supply had materialised within that date. In the event of default of breach of contract, Government was entitled to cancel the contract at the risk and cost of the defaulting firm, place a risk purchase Acceptance of Tender (A/T) and recover the additional cost incurred in repurchase (representing the difference between the value of the defaulted contract and that of the risk purchase contract) but the additional expenditure could not be recovered due to invalidation of risk purchase on account of failure to complete risk purchase formalities within six months of the date of breach of the defaulted contract, change in the terms of the purchase of the risk purchase A/T vis-a-vis, the original A/T and ignoring of lower offers received in response to the tender enquiries for repurchase from unsolicited/untried/unregistered firms. Specific cases illustrating the reasons why risk purchase could not be effected were given. There was inadequate follow up action and delay in recovering risk purchase losses or general damages and a large number of cases awaited finalisation, and 1428 cases valued at Rs. 3288.11 lakhs were outstanding in March 1987. Although action for renewal or placement of fresh rate contracts was to be initiated six months before the date of expiry of the existing rate contract, so as to facilitate finalisation of new contracts on time, several instances of delay ranging from 1 to 23 months between the expiry of old rate contract and the placement of fresh contract were noticed. No performance levels had been prescribed for judging the performance of rate contract holders. In some cases contracts were placed where level of performance ranged from 70 to 90 per cent; in others, contracts were placed regardless of the level of performance. Although purchase officers were required to keep themselves abreast of the rise and fall in market prices so that fall in prices could be taken advantage of by Government, the institutional mechanism for monitoring prices was inadequate. There were delays in finalising arbitration cases and on 1st April, 1987, 511 cases were outstanding. Notwithstanding the provision that the arbitration cases should be finalised within four months, 315 cases with two arbitrators was pending, as on 31st March, 1987, of which 94 were more than 3 years old. Recoveries amounting to Rs. 424.25 lakhs decreed in favour of Government remained to be effected. A large number of purchase files requisitioned by Audit had not been made available and 7412 requisitions were pending on 31st July, 1987; purchase value of 62 per cent of the cases was not known; 39 per cent of requisitions related to the period 1970—81, and 52 per cent were pending for more than five years. The Department of Supply did not reply to the para.

Note:

List of Abbreviation and Sources and References are given at the end of Chapter 22.

22 RECENT REPORTS

REPORT ON UNION GOVERNMENT-CIVIL

Audit Report* contained 82 paragraphs including 8 reviews and 63% paras were not responded by the Ministry/Department of Government of India. An overview of the Ministry-wise paras and reviews is given below :

(i) Ministry of Finance

The internal debt increased to Rs. 98,646 crores at the end of March, 1988 as against Rs. 86,313 crores in March, 1987 and the external debt increased to Rs. 23,223 crores, as against Rs. 20,299 crores in the previous year. Aggregate liabilities stood at Rs. 1,95,561 crores, which registered an increase of 130 per cent over the preceding five years, which was a little over 67 per cent of Gross National Product. The debt service ratio was 19.7 per cent. The revenue deficit increased sharply from Rs. 1254 crores in 1982-83 to Rs. 9137 crores in 1987-88. A sum of Rs. 5497 crores was paid during 1987-88 as subsidies on food, indigenous fertilizers, export promotion and market development, etc. The overall supplementary provision obtained during 1987-88 constituted three per cent of the original provision. In 20 cases, the supplementary provision of Rs. 546 crores was unnecessary. There were excesses amounting to Rs. 53.79 crores in 11 cases, which required regularisation by Parliament.

(ii) Ministry of Agriculture

The review on assistance to small and marginal farmers for increasing agricultural production indicated that over Rs. 682 crores were spent on the programme from 1983-84 to 1987-88 and the major in-built constraint was the inadequate allocation of funds and expenditure therefrom to ensure any perceptible impact. Soon after the programme was launched, the need for integration of similar programmes and channelising the funds to the States through one programme was projected by the then Ministry of Rural Development Planning Commission and Working Group on Agricultural Production set up for the formulation of the Seventh Five Year Plan. However, the programme continued to be implemented in isolation. Funds were allocated on uniform basis *viz.*, Rs. 5 lakhs per block annually without regard to the number of small and marginal farmers in the blocks resulting in inequitable allocation of funds amongst various States and Union Territories. Seventy per cent of allocation under the programme was

* No. 1 of 1989 signed by Shri Dharam Vir and countersigned by Shri T.N. Chaturvedi on 3rd May, 1989 and presented to Parliament on 18th/19th July, 1989.

envisaged for 'Minor Irrigation' without estimating the irrigation requirements of the regions or the position of already over-exploited ground water levels in the blocks. The distribution of minikits of oilseeds and pulses throughout the country was contemplated without taking into consideration the agro-climatic conditions and availability of ceritified seeds of improved varieties. Proper surveys had not been carried out by the States with a view to identifying the needy and priority areas and target groups. Some of the financial shortcomings and irregularities noticed during audit were, release of disproportionately large amounts to a number of States by the Ministry of Agriculture during the last quarter or in the month of March, incurring large expenditure by several States in the month of March, treating advances of over Rs. 29 crores made to several executing agencies as final expenditure, diversion of more than Rs. 10 crores to other programmes or other activities, payments of subsidy exceeding Rs. 4.10 crores in cash directly to the beneficiaries instead of adjusting them against loans obtained from the financing institutions, excess disbursement of subsidy of over Rs. 1.06 crores due to application of incorrect rates. Non-utilisation of tubewells/irrigation works for want of energisation and non-provision of pump sets for 3.29 lakh wells/borings etc., excess payment of Rs. 36.62 lakhs to the Andhra Pradesh State Cooperative Rural Irrigation Corporation due to charging of higher rate for drilling in well bores, purchase from selected firms, without inviting tenders, in Muzaffarpur district of Bihar, of GI pipes and accessories for tubewells costing Rs. 81.26 lakhs, irregular disbursement of Rs. 88.48 lakhs directly to the farmers in Punjab during 1986-87 and 1987-88 in respect of boring of wells, which were required to be done through Government agencies, adjustment of subsidy of Rs. 106.79 lakhs on simple certificates furnished by the Informal Committee having no *locus standi* in Udaipur district of Rajasthan, distribution of older varities of seeds worth Rs. 454.39 lakhs in five States, distribution of sub-standard seeds in Orissa and West Bengal and insignificant expenditure on Land Development works in five States were the other irregularities noticed. There was lack of effective monitoring of the programme at the Central, State and District levels. No evaluation studies were undertaken to ascertain the impact of the programme.

Acquisition of land: In the Union Territory of Dadra and Nagar Haveli, out of 50 proposals of land acquisition received during 1982 to 1987, award was declared in only two cases, two cases lapsed due to non-finalisation of proceedings, in 27 cases, proceedings were in progress, whereas in the remaining 19 cases proceedings were yet to be initiated. Land measuring 134.45 acres valued at Rs. 174.49 lakhs acquired by

Union Territory of Chandigarh and possession taken in July 1983/July 1987 had remained unutilised. The Administration incurred extra expenditure of Rs. 5.78 lakhs due to delay in completion of acquisition proceedings, non-revision of award under the amended Act and delayed payment of compensation. Land measuring 25.45 hectares acquired in Kerala at a cost of Rs. 68.92 lakhs for widening and strengthening of certain sections of National Highway 47 made available to PWD during 1974 to 1982 had not been made use of due to non-sanctioning of estimates by the Ministry of Surface Transport.

Injudicious expenditure of Rs. 11.18 lakhs was incurred by High Commission, London on appealing against an award to gain Rs. 1.67 lakhs.

(iii) **Ministry of Commerce**

A test check of accounts of 440 branches of 75 banks in the country disclosed that interest subsidy under the Export credit (Interest subsidy) scheme amounting to Rs. 413.92 lakhs had been drawn irregularly or in excess for the period upto March, 1987. On being pointed out by Audit, an amount of Rs. 229.12 lakhs was refunded by the banks to Reserve Bank of India upto 30th September, 1988 while the balance amount of Rs. 184.80 lakhs was to be refunded. By not restricting the payment of cash compensatory support (CCS) to 25 per cent of value addition on the exports of footwear, excess payments amounting to Rs. 58.71 lakhs were made by the various regional offices of the Ministry of Commerce during the period July 1986 to June 1988. Cash assistance of Rs. 16.50 lakhs was paid to a firm on the exports of "prefabricated slabs and blocks" made during 1980-81 by classifying the exported item as an engineering product, which did not find place under any group for entitlement of cash assistance and the payment was irregular. Excess payment of Rs. 10.95 lakhs was made to an exporter by allowing cash assistance at the protected rate of 20 per cent of f.o.b. value of exports instead of 7.5 per cent applicable. Excess payment of Rs. 6.53 lakhs was made due to not applying the rate of 20 per cent allowed to spare and components. Irregular/excess payment of Rs. 6.07 lakhs was made by allowing CCS at the protected rate of 12.5 per cent of the f.o.b. value of exports instead of 5 per cent applicable on the date of export. Omission to fix the rate for components, spare parts, ancillaries and accessories at par with the parent product involved an avoidable payment of Rs. 3.81 lakhs during April 1979 to November 1980; further overpayment of Rs. 2.74 lakhs was made in 1981-82 by continuing cash assistance at 12.5 per cent, even after reduction to 10 per cent. As a result of erroneous decision by Headquarters Classification Committee, the Joint Chief Controller of

Imports and Exports, Bombay made a payment of cash assistance of Rs. 2.44 lakhs for the deemed exports of 'wood chippers'. Inadequate scrutiny resulted in excess payment of cash assistance of Rs. 2.06 lakhs. All the case files relating to payment of cash compensatory support on export of components of Railway wagons, cast iron fittings and engineering goods were not made available to Audit, despite repeated reminders, by Joint Chief Controller of Imports and Exports, Calcutta. The non-production of files impeded the effective functioning of Audit and also contravened Section 18(2) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 which made it obligatory for departmental heads to furnish to Audit all documents and records requested by them in the discharge of their duties with utmost speed and expedition.

(iv) Ministry of External Affairs

The apartment which was offered for \$3,39,300 in January 1982 was purchased for \$9,50,000 in September, 1985 at New York. Delay in taking decision by the Ministry of External Affairs for purchase of an apart ment as residence for the head of the Consulate and in occupying it after purchase resulted in extra expenditure Rs. 95.58 lakhs. A property in Jeddah Towers purchased by the Indian Mission at Cairo to accommodate the chancery and two officers at a cost of Rs. 127.20 lakhs in June 1984 had not been handed over by the owners even after four years and the Ministry which inspected the premises in 1986 found it unsuitable from security point of view and decided in April 1988 to sell it. Embassy of India, Bonn purchased a plot of land for construction of 20 flats for India based staff at a cost of Rs. 43.53 lakhs and the ownership was transferred to Government of India in March 1983 but the construction wrok was not taken up resulting in blocking of Government funds for over five years. Mean while, the Mission had continued hiring of accommodation for its staff incurring an expenditure of Rs. 33.20 lakhs till October 1988. The failure to observe reciprocity in financial apsects in respect of exemption from property tax due to lack of coordination amongst Ministry of External Affairs, Ministry of Urban Development, Delhi Municipal Corporation and New Delhi Municipal Committee caused avoidable payment of property tax for 16 properties by Embassy of India, Washington till December 1985. Loss of revenue of Rs. 7.70 lakhs was caused due to failure to charge prescribed fee of Rs. 10 per passport with emigration endorsement by the RPO Bombay during October 1981 to Feb. 1986. Short realisation of revenue of Rs. 5.39 lakhs by three consulates after the receipt of new forms occurred due to omission to charge the cost of application form for issue/renewal of passport prescribed in August 1986 by the Consulates at Chicago, New York and Sanfrancisco.

The Embassy of India Washington reimbursed a sum of $22,532 (Rs. 2.95 lakhs) to the officers/staff of the Missions towards upkeep of gardens, lawns, hedges attached to the residences without obtaining proof of expenditure as prescribed by Government. $7082.95 were paid for journeys performed from April to June 1987 and $5782.40 for taxi charges for the period July/August 1987 for attending office on holidays and beyond office hours on working days. The payments at the rate of $16 in each case were made without production of receipts and irrespective of distance travelled. The average payments so made worked out to $2573 per month (Rs. 4.04 lakhs per year).

(v) Ministry of Health and Family Welfare

Manufacture of Japanese encephialitis vaccine. The project for manufacutre of japanese encephalitis vaccine at the Central Research Institute, Kasauli was approved by the Government of India in March 1982 but could not be completed within the stipulated period of four years due to receipt of imported machinery in a damaged condition. The Institute had finished product of 4.67 lakh doses of vaccine in November 1987 but their distribution and utilisation were not planned. The decision of the Government of India on the recommendations of the Committee (June 1987), for utilisation of three lakh doses on controlled field trial basis had not been received (December 1987). An indigenous freeze drying plant ordered in July 1985 at a cost of Rs. 15.16 lakhs to be supplied by May 1986 had not been received despite various extensions granted upto September 1987.

Irregularities in acceptance of medicines. Generally, Medical Store Depots accepted medicines after test and only in emergent cases on warranty certificate. Medical Store Depot Calcutta accepted medicines worth Rs. 153.91 lakhs during July - September 1985 which constituted 52 per cent of total medicines purchased on warranty certificates. The medicines were also not subjected to subsequent tests. Further, the Depot accepted medicines costing Rs. 3.60 lakhs from three manufacturers without test even though the medicines supplied earlier by these very manufacturers had been rejected on test. Re-testing of samples of medicines at a second laboratory was not allowed. Medicines costing Rs. 2.34 lakhs which were initially rejected after test were subsequently accepted on retesting by another laboratory without investigating the reasons for variation in test results. Cases of acceptance and issue of substandard medicines costing Rs. 0.64 lakh were also noticed during test-check.

Avoidable extra expenditure on purchase of drugs. Inspite of the recommendations of the Public Accounts Committee in 1970 that effort should be made to scale down local purchases to the minimum, Medical Stores Depot, Calcutta made, local purchase of medicines to the extent of 79 to 89 per cent of the total purchases during 1984-85 to 1986-87. The Depot incurred avoidable extra expenditure of Rs. 130.45 lakhs in 1985-86 due to local purchase of 19 single ingredient items not included in the vocabulary of Medical Stores which should have been purchased by the indentors as per the prescribed procedure. Despite the existence of rate contracts for purchase of Erythromycin Stearate, the Depot purchased the drug at rates substantially higher than rate contract rates involving extra avoidable expenditure of Rs. 6.64 lakhs. The Depot incurred additional expenditure of Rs. 4.84 lakhs by making purchases at higher rates from the same firms with which it had lower contract rates. During 1985-86, the Depot issued costlier brand drugs to the indenting departments against specific indents for single ingredient drugs resulting in avoidable expenditure of Rs. 16.26 lakhs.

(vi) Ministry of Home Affairs

Upgradation of standards of administration of non-development sectors. In pursuance of the recommendations of the Seventh Finance Commission, Government of India released grants aggregating Rs. 4823.26 lakhs and Rs. 6288.03 lakhs to the State Governments for upgradation of standards in (i) Jails and (ii) Revenue and district Administration respectively, which were to be spent as per the approved plans of action. In several cases the plans of action were finalised after considerable delays; the implementation of the scheme was not monitored by the Ministry and grants were released without following the prescribed procedure. In one case, Rs. 96.20 lakhs were released over and above the amount provided in the approved action plan and without specifying the purpose for which it was to be spent. In Jails Sector, grants aggregating Rs. 438.85 lakhs remained unspent. Further, in both the sectors, the reported expenditure included Rs. 679.80 lakhs, which were actually not spent and Rs. 349.96 lakhs were diverted from the approved designated items and spent on items not provided. Cases of avoidable expenditure of Rs. 24.54 lakhs and inadmissible expenditure of Rs. 53.50 lakhs were noticed. The physical targets of construction of buildings were not achieved in the Jails sector in eight out of the nine States, while in the Revenue and District Administration, the short-fall ranged from 17 to 100 per cent. Two jails works on which expenditure of Rs. 253.25 lakhs was incurred by the Governments of Rajasthan and Tamil Nadu were not completed resulting in blocking of funds. In three States, equipment/

barracks worth Rs. 73.75 lakhs had remained idle/unutilised. Despite Government of India's assistance, the expenditure incurred by four States on provision of diet, medicines, clothing, etc., to the prisoners continued to be below the recommended norms.

(vii) Ministry of Industry

Extra transportation charges of Rs. 18.48 lakhs were reimbursed to Awarpur Cement Works, at Awarpur, Maharashtra from December 1985 to April 1981.

(viii) Ministry of Information and Broadcasting

Publication Division : The Publication Divison had cumulative backlog of 192 titles at the end of March 1988, of which 119 titles were in the editorial pipeline and 73 titles were at various stages of production. In 83 cases, delays upto two years in the receipt of copies from the printers were noticed; eleven cases had remained in the editorial pipeline for more than five years. In 199 out of 391 test checked cases, delays upto 72 months were noticed in printing by press. The Division fixed the prices of publications printed at Government press on the basis of out-moded schedule of rates prescribed in April 1977, till January 1985. In 38 jobs, the difference due to fixation of prices on the basis of out-moded schedule of rates and the rates charged by the press in respect of publications during April 1983 to January 1985 worked out to Rs. 22.45 lakhs. Books of the value of Rs. 221.72 lakhs had remained unsold. A proper assessment of the demand for printing of publicity material has to be made so as not to burden the Publication Division with unsold copies resulting in blocking of funds, which could otherwise be utilised for worthwhile publications. The Ministry could also make sales promotion efforts through All India Radio and Doordarshan which were agencies under the same Ministry. The annual physical verification was not done; no investigation was done for shortage/excesses. While the Ministry agreed with the Audit findings, it did not, however, indicate the action proposed by them for creating an Internal Inspection Cell to attend exclusively to this work.

Blocking of Funds : Ministry of Information and Broadcasting paid Rs. 49.22 lakhs to Chandigarh Administration during 1972-73 to 1974-75 as cost of land and ground rent for two years for setting up office and a studio for All India Radio (AIR). As the site was not suitable, an alternate site was allotted in November 1983 for Rs. 53.94 lakhs. The work of construction of studio was awarded in March 1988 and was in progress. In the mean time, equipment worth Rs. 33.68 lakhs were purchased by Chief Engineer, AIR between January 1982 and March

1987, out of which equipment worth Rs. 5.43 lakhs were diverted in July 1983 and installed at AIR, Rampur and the remaining equipments worth Rs. 28.25 lakhs were lying uninstalled. Acceptance of plot of land and purchase of equipment much in advance resulted in blocking of funds amounting Rs. 84.57 lakhs for a period ranging from 4 to 14 years.

(ix) Ministry of Labour

Implementation of provisions of the Apprentices Act, 1961. One of the objectives was to utilise fully the facilities available in the industry for imparting practical training with a view to meeting the requirements of skilled workers in the industries. Government of India, State Governments (Goa, Haryana, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh, West Bengal and Union Territory of Chandigarh) spent Rs. 40.00 crores during 1982—88 for implementation of provisions of Apprentices Act, 1961. No comprehensive survey for identification of training places and establishments was conducted; only 28 per cent of the recognised establishments having training facilities were identified of which 66 to 69 percent of establishments actually imparted training to apprentices. In 67 out of 139 trades, the number of apprentices engaged did not exceed one hundred. The percentage of unutilised seats vis-a-vis located seats ranged from 28 to 31 in case of trade apprentices, 47 to 66 in case of graduate engineers apprentices, and 24 to 39 in case of diploma holders. Some of the Ministries like Ministry of Railways had not engaged even half of the number of located seats, whereas the Eastern Coal-Fields Limited, Calcutta had been operating a parallel training scheme of its own contrary to the provisions of the Act. Only 9 to 11 and 2 to 3 per cent of seats reserved for trade apprentices belonging to Scheduled Castes and Scheduled Tribes respectively were utilised. No information was available about the drop-outs. The number of Apprentices appeared in the trade test and the number passed ranged between 35 and 42 per cent and between 26 and 30 per cent respectively of the number of apprentices on roll. No suitable machinery was designed to follow up the placement of trained apprentices during 1982—88. 55 to 97 per cent of apprentices had not been provided gainful employment in five States/Union Territory. The progressive trade tests designed to evaluate the quality of training were not conducted as per targets. The penal provisions of the Act, where provisions of the Act were violated either by the establishments or by the apprentices, had not been invoked in any case by the implementing authorities. No effective monitoring of the programme was carried out. The State Apprenticeship Councils were not functioning effectively in four States. Neither the State

Apprenticeship Councils nor the Central Apprenticeship Council had looked into the shortcomings in the implementation of the Act.

(x) Ministry of Textiles

Powerloom Service Centres: A review of the working of twelve powerloom service centres set up under the administrative control of Textile Commissioner, Bombay under the Ministry of Textiles and four centres under Textile Research Association showed that the centres were not established in Andhra Pradesh, Assam and Haryana, which had a large number of powerlooms. Three centres at Amritsar, Surat and Trichur commenced operation after a lapse of two to five years due to delay in getting power connections. The budget provisions of the centres for six to ten years upto 1987-88 as well as grants paid during 1987-88 for the four centres under 'Textile Research Association were not fully utilised. Targets of training programmes were low vis-a-vis the large number of power loom weavers; even these targets were not achieved in any of the centres. The centres did not have all the required machinery; cases of delay in installation and utilisation of the machinery were noticed. In Surat centre, which catered only to the needs of the silk fibre unit, machinery useful for cotton fabrics testing was provided. Testing of samples was only to the extent of 22 per cent of the targets and there was considerable shortfall in development of new designs and diversification of production. Advisory bodies did not hold their quarterly meetings as required and follow-up action on the recommendations of the advisory bodies were not readily available from the records of the Textile Commissioner.

(xi) Ministry of Energy

Salal Hydro-electric project : The estimated cost of the project had gone up from Rs. 55.15 crores in March 1970 to Rs. 585.35 crores in July 1986. Expenditure of Rs. 519.40 crores had been incurred upto end of March 1987. The first phase of the project which was started in 1970 had been commissioned in 1987. The schedule of completion envisaged in the project reports from time to time could not be adhered to and there was delay in completion of almost all the major components of the project. Machinery worth Rs. 41 crores purchased for construction of rockfill dam were under-utilised as works worth Rs. 3.53 crores were allotted to contractors and not executed departmentally. One pneumatic drilling jumbo machine worth Rs. 43.61 lakhs purchased for tail race tunnel had also not been put to use. While plugging diversion tunnel, machinery and equipment worth Rs. 29.16 lakhs were left behind and could not be retrieved. Claim for Rs. 5.04 lakhs on account of subsidy on freight charges for cement was not preferred within the prescribed period which resulted in loss. Surplus spares worth Rs. 1.07 crores and imported steel worth Rs. 0.29 crore were lying unutilised.

(xii) Ministry of Surface Transport

Construction of bridges and approach roads by Border Roads Organisation. The Organisaton awarded the construction of a bridge in March 1977 to a Public Sector Undertaking (PSU) for Rs. 59 lakhs in July 1978 to be completed by December 1981. The PSU completed 25 per cent of the work upto June 1985 when the contract with it was cancelled. The remaining work was awarded to a private firm in December 1986 for Rs. 2.12 crores at the risk and cost of defaulting PSU. The private firm had completed 52 per cent work upto March 1988. The work was scheduled for completion by May 1989. Rs. 4.37 lakhs were recoverable from the PSU on account of mobilisation advance and expenditure on watch and ward of its stores, machinery etc. The feasibility of recovering the extra expenditure on construction of bridge from PSU was in doubt. Expenditure of Rs. 62.54 lakhs was incurred on the approach roads; the work on approach road on one of the two sides of the bridge was incomplete as a part of land had not been acquired so far. In another case, the construction of the bridge sanctioned for Rs. 15.06 lakhs in February 1979 was awarded to a contractor for Rs. 14.39 lakhs in July 1980 to be completed by October 1982. The bridge was constructed in December 1984 but load tests were completed in February 1987. The Department had spent Rs. 2.22 lakhs during December 1984 to July 1986 on maintenance of the existing bailey bridge.

(xiii) Ministry of Water Resources

Farakka Barrage Project : During the years 1983—88, 14 arbitration awards relating to works awarded to contractors by Farakka Barrage Project between 1966-67 and 1982-83 were delivered in favour of the contractors out of which eleven awards involving Rs. 3.22 crores were discharged in full by May 1988. It was observed in audit that eight awards (each award involving more than Rs. 0.5 lakh) were discharged without making the awards rules of the court in disregard of the orders. Further, in the case of six awards, Rs. 89.43 lakhs were allowed by the arbitrators towards interest with retrospective effect which was contrary to judicial pronouncements and which resulted in avoidable extra payment of Rs. 89.43 lakhs in these six cases. The Pagla and Bansloi river basin scheme was sanctioned by the erstwhile Ministry of Agriculture and Irrigation in January 1979 at an estimated cost of Rs. 4.12 crores. The scheme was to be completed by June 1980 and had not been completed so far, despite expenditure of Rs. 4.68 crores upto September, 1988. Rs. 28.04 lakhs were due from a contractor who had abandoned the work of construction of two regulators in November, 1981, and excess payment of Rs. 3.29 lakhs was made to two contractors, who were entrusted with the completion of the remaining work. The work of erection of gates to be completed by April 1987 had not been taken up and Rs. 91.81 lakhs were paid to the contractor against supply of materials upto September, 1988. Farkka Barrage Project authorities awarded the work of supply of 50,000 cubic metres of boulders required for the execution of protection works at right bank down-stream of Farakka Barrage to a contractor in February 1984. The work was to be completed before June 1984, subsequently extended upto 15th December, 1984. Though the project authorities rescinded the contract on 15th December, 1984 at the risk and cost of the defaulting contractor, the extra expenditure Rs. 13.42 lakhs in procuring the supply of balance quantity through another contractor could not be recovered from the defaulted contractor.

(xiv) **Ministry of Finance**

Though the Security Paper Mill, Hoshangabad had, in November 1982, found the special metallic security (SKM) thread to be unsuitable on modernised machines and the mill's consultants had recommended polyster based Mex Metal thread in December 1982, further supply of SKM thread was not discontinued and instead 1.97 tonnes of SKM thread (cost : Rs. 14.84 lakhs) were received in August 1983 and used till January 1986. During 1983-84 to 1984-85, the mill used 30.52 tonnes of SKM thread on modernised machines, the production loss of paper on account of 10 per cent excess spoils worked out to 508.93 tonnes costing Rs. 274.82 lakhs. Defective planning in purchasing equipment and lack of proper technical appraisal of the existing machines at the time of modernisation of the Security Paper Mill, Hoshangabad, resulted in non-utilisation of 503.77 tonnes of spoils and avoidable extra expenditure of Rs. 69.30 lakhs on proportionate use of cotton and hard waste during 1982-87.

(xv) **Andaman and Nicobar Administration**

The Andaman and Nicobar Administration spent Rs. 3.85 lakhs on purchase of equipment for laundry plant in hospital during 1977-79. The building for the plant was completed in March 1985 at a cost of Rs. 7.44 lakhs and the plant was commissioned in September 1985. The plant worked for 96 days during the period from August 1985 to August, 1986, whereafter it broke down. Thus, the expenditure of Rs. 11.29 lakhs incurred on the laundry plant remained largely infructuous. The work, 'provision and improvement of piped water supply arrangement in North Andaman Villages' sanctioned in November 1983 to be completed in two working seasons at a cost of Rs. 20.26 lakhs, was actually completed in February 1987 at a cost of Rs. 34.06 lakhs. High density polythene pipes originally laid were found unsuitable and had to be replaced by cast iron and galvanised iron pipes resulting in a loss of Rs. 8.53 lakhs.

(xvi) **Chandigarh Administration**

Chandigarh Administration allotted a plot of land measuring 14483 square yards to the Punjab constituent of All India Women's Voluntary Services in October 1975 for construction of a hostel for working women and scheduled castes and tribes girl students. The organisation paid Rs. 1.09 lakhs as first instalment of total cost of land of Rs. 4.34 lakhs at the time of allotment. For the construction of buildings, grants aggregating Rs. 11.81 lakhs were paid to the organisation in March 1975—March 1977. However, the construction of building, commenced in March 1976, was stopped by the organisation in March 1977. As the Organisation failed to pay the remaining instalments of the cost of land as well as the annual ground rent, Administration cancelled the allotment in April 1979 and got the property from the organisation in August 1983. Administration had to pay Rs. 3.11 lakhs to the building contractor to retain the title to land. The hostel structure remained incomplete and was not put to use (September 1988). Government grants aggregating Rs. 11.81 lakhs, allotment of land valuing Rs. 4.34 lakhs and settlement of contractor's claim worth Rs. 3.11 lakhs did not achieve the desired objective. Administration did not consider the lowest of the valid tenders invited in February 1985 for replacement of teak wood flooring in the skating rink estimated to cost Rs. 5.50 lakhs. After reinviting tenders, in September 1985, and again in January 1986, the Administration awarded the work to another firm in March 1986 at higher rates resulting in extra expenditure of Rs. 3.52 lakhs.

REPORT ON DELHI ADMINISTRATION

The Audit* Report on Union Government (Delhi Administration) contained 34 paragraphs including three reviews and 62% were not responded to by the department/administration. Out of a provision of Rs. 245.79 crores made for opening of new schools and providing necessary infrastructure during 1980-81 to 1987-88, Rs. 17.99 crores was

* No. 8 of 1989 signed by Shri A.H. Jung and countersigned by Shri T.N. Chaturvedi on 24th April, 1989 and presented on 10th May, 1989.

not utilised. Against the target of opening 115 middle schools during the Sixth Plan, only 61 schools were opened. Educational facilities in resettlement colonies/slum areas were lacking as compared to urban areas. As many as 50 schools were being run in tents and another 120 partly in tents exposing the students to inclement weather conditions. Furniture provided to the newly opened schools were not adequate. Rs. 3.01 crores paid during 1981-82 to 1986-87 was blocked with Delhi Development Authority as possession of 21 sites was not handed over. There was no system of monitoring the implementation or evaluation of the scheme in the Directorate of Education. Equipments costing Rs. 1.30 lakhs purchased during 1978-79 and 1979-80 by the Science-cum-Central Workshop of the Directorate of Education for imparting practical training in vocational and socially useful productive work subjects were not utilised for over eight years. A part of the three storyed building of a school, on which a sum of Rs. 33.26 lakhs had already been paid to a contractor collapsed in July 1983. Final decision of the Administration on the recommendation of the Chief Engineer, Public Works Department made in May 1987 that the entire building be demolished and reconstructed was awaited.

Under Integrated Child Development Services, a large number of anganwadi workers were untrained during 1984-85 to 1987-88, and did not belong to the same village as envisaged in the scheme. There was no correlation between the actual number of births reported during the year and the number of beneficiairies exhibited in the monthly progress reports of the project officers; the survey and beneficiairies figures were inflated on the whole by 55 per cent to enable increased drawal of funds from the centre and Delhi Administration. Children and women covered under supplementary nutrition were given less than 50 per cent of calories and proteins envisaged under the scheme. Reports regarding supply of sub-standard quality of bhuna chana and murmura supplied by Delhi State Civil Supplies Corporation through a contractor during 1987-88 were received from various Child Development Project Officers from September 1987 onwards. The supply of these items was also irregular. The Directorate took up the matter with the Corporation only in April 1988 *i.e.*, after expiry of the agreement. Purchase of biscuits worth about Rs. 200 lakhs during 1987-88 was made from a company through an intermediary (Super Bazar) without inviting open tenders. No records were maintained by the Directorate relating to the immunisation against tetanus of expectant women during 20 - 36 weeks of pregnancy. No guidelines were formulated by the Directorate for imparting non-formal education to the children in the age group of 3-6 years. There had been no proper sitting accommodation for the children in the anganwadis for giving non-formal education to them. No norms were laid down by the Directorate to carry out inspections of projects by higher officers of the department.

A microfilm camera and allied accessories purchased by the Department of Delhi Archives, at a cost of Rs. 1.78 lakhs in 1981 had not been utilised so far for want of proper photo section and dark room, though an Assistant Microphotographist was appointed for operating the equipment in April 1982, who was paid Rs. 1.10 lakhs towards his pay and allowances. The poultry farm, under the administrative control of the Development Commissioner intended to be run on 'no profit - no loss' basis, suffered a total loss of Rs. 31.01 lakhs from 1979-80 to 1986-87 and did not prepare proforma accounts from 1983-84 onwards. Purchase of 1000 gas masks as part of a contingency plan was decided in February 1986 and order was placed with a firm in March 1987. Rs. 106.60 lakhs was drawn in advance in the same month in anticipation of supplies to avoid lapse of funds. The gas masks were supplied by the firm between June 1987 and July 1988 and payment of Rs. 53.30 lakhs relating to 500 gas masks was made in March 1988. Penalty leviable on the firm for delay in supply of the gas masks had not been imposed. Failure to avail of the discount of Rs. 0.32 lakh offered by a contractor for supply of cars, non-recovery of Rs. 2.54 lakhs under the terms of the agreement from another contractor for breach of contract due to omission to issue legal notice were the other points. The Commissioner of Police had also incurred an extra expenditure of Rs. 1.57 lakhs due to acceptance of higher rates of another contractor for supply of cars by the Commissioner of Police. A sum of Rs. 2.64 lakhs was undercharged by the traffic staff in the month of September 1984 alone, in 11 out of the 16 circles, from traffic offenders by an order issued by DC(P) authorising the subordinate staff to charge composition fee less than the prescribed minimum.

Drought subsidy for agricultural inputs and fodder - out of the total allotment of Rs. 280 lakhs made in November 1987 for distribution of agricultural inputs at subsidised rates to farmers holding land upto five acres, Rs. 112.11 lakhs remained unutilised. Test check of records of 28 villages maintained by the Block Development Officers revealed that payment of subsidy for Rs. 9.55 lakhs in 978 cases was inadmissible. Out of Rs. 190 lakhs allotted in December 1987 for distribution of fodder at subsidised rates, an amount of Rs. 48.04 lakhs only was utilised. Sixty one per cent of the permits were issued to ineligible persons. The quality of fodder supplied by the sales depots was not properly checked by the authorised representative of Animal Husbandry Department. Splitting up purchases to bring within the tendering powers of the assistant engineers resulted in payment of Rs. 48.252 lakhs against tendered amount of Rs. 6.17 lakhs and extra expenditure of Rs. 26.05 lakhs, and non-installation of equipment costing Rs. 27.35 lakhs. A sum of Rs. 27.35 lakhs in respect of five works awarded by the Public Works Department between May 1979 and February 1982 had not been recovered from a contractor even after a lapse of more than five years. Irregular drawal of Rs. 40 lakhs and payment to the Delhi Development Authority in March, 1980 for construction of a road without identifying its location, length, etc., which was not taken up by the DDA due to delay in finalisation of the alignment of the road. The construction of the road has been taken up in November 1987 by the Public Works Department of Delhi Administration, the amount paid to Delhi Development Authority had not been recovered. Non-renewal of registration of 90636 establishments which became due by 31st March, 1987 under the Delhi Shops and Establishments Act, 1954 led to realisation of fee of Rs. 9.06 lakhs. Rs. 66.26 crores was released as total loans and grants to the slum wing of DDA during 1980-81 to 1987-88 for the schemes of slum clearance and improvement of slums, environmental improvement of slum areas and construction of flats for economically weaker sections and providing developed plots for self housing. An expenditure of Rs. 44.53 crores only was incurred and Rs. 21.73 crores was left with the DDA. No instalment of the loan of Rs. 17.05 crores released by Delhi Administration during 1954-55 to 1987-88 was re-paid and Rs. 6.46 crores on account of principal and Rs. 5.87 crores as interest thereon were due from DDA in March, 1988. Out of 6646 flats completed during 1980-81 to 1987-88, 2128 flats were lying vacant in March 1988. Riot victims were allotted 755 flats in lieu of property owned by them but properties against which the allotments were made had not been taken over. In March 1988, Rs. 140.32 lakhs on account of licence fee for the period ended 31st March, 1985 was recoverable from slum dwellers to whom the flats were allotted. Land comprising 42.78 acres which was meant for construction of flats for slum dwellers had been encroached upon and 71 acres of land was lying vacant. Rs. 62.58 lakhs was not recovered by Delhi Development Authority from eleven ex-allottees of shops and parking site at Inter-State Bus Terminus; non-adherence to the terms and conditions of allotment, handing over the possessions without obtaining proper security and failure to take effective steps for recovery from time to time were noticed. Three cases for recovery of Rs. 16.02 lakhs in respect of a shop and parking site were pending in the courts.

The total receipts of the Union Territory of Delhi during 1987-88 amounted to Rs. 677.19 crores - Rs. 653.28 crores, tax receipts and Rs. 23.91 crores, non-tax receipts - which represented an increase of

14 per cent over the total receipts of previous year. Tax receipts were mainly derived from Sales Tax (Rs. 431.82 crores), State Excise (Rs. 131.43 crores), Motor Vehicles and Goods and Passengers taxes (Rs. 51.84 crores) and Stamps and Registration fees (Rs. 24.73 crores). In 38 cases, non-levy, short-levy of tax, duty, penalties and losses of revenue were noticed and the tax effect of the various irregularities pointed out was about Rs. 66 lakhs including penalty and interest. As a result of re-examination of some of the cases involved in these audit objections, the department revised the assessment and raised a total demand of Rs. 83.35 lakhs on account of tax, penalty and interest. Short-levy of tax due to non-detection by department, of false/invalid declarations or interpolations in the delcarations amounted to Rs. 9.53 lakhs in 16 cases. Besides, penalty amounting to Rs. 23.84 lakhs was also leviable in these cases but was not levied. Short levy of tax due to non-detection of suppression of sales in eight cases involved a loss of Rs. 3.99 lakhs. Besides, penalties upto Rs. 9.98 lakhs could be levied on the dealers for suppression of turn over. Irregular grant of exemption from tax amounted to Rs. 2.18 lakhs in four cases. In State Excise - loss of revenue due to incorrect fixation of wholesale licensees amounted to Rs. 12.11 lakhs. In Entertainment Tax - in one case short-levy of Rs. 1.78 lakhs was noticed.

REPORT ON OTHER AUTONOMOUS BODIES

The Audit Report* on other autonomous bodies contained 26 paragraphs including four reviews of which 14 were replied by the bodies/corporations/ Ministries of Government of India concerned. The annual accounts of 30 out 53 bodies (other than those under the Scientific Departments) whose accounts were to be audited had not been received. Out of 169 Central autonomous bodies, whose accounts for the year 1986-87, together with Audit Reports were required to be placed before Parliament, accounts of 88 bodies were received late beyond the prescribed time limit of three months by periods ranging upto 12 months and accounts of one body were not received. In respect of grants released to various bodies during 1976-77 to 1984-85, 4399 utilisation certificates for Rs. 626.58 crores were outstanding, which indicated lack of control over the receipt of utilisation certificates by the various sanctioning authorities.

The review on Indian Council for Cultural Relations disclosed that there was a shortfall of 55 per cent in implementation of programmes in 1986-87 and 1987-88. More delegations were sent to Europe and USA

* No. 9 of 1989 signed by Shri Dharamvir and countersigned by Shri T.N. Chaturvedi on 24th April, 1989 and presented to Parliament on 10th May, 1989.

than to African and neighbouring developing countries during 1982-83 to 1987-88, contravening the existing guidelines. Besides, the performances given by the artistes during their stay abroad were less than those fixed by the Council. The artists were selected without approval of the Experts Committee. Detailed reports from scholars and artistes were not insisted upon on completion of their tour in 81 cases in 1986-87. Rates of honorarium payable to performing artists were revised in December 1983 without obtaining Government's approval. Contrary to Government's instructions for air booking directly through national carriers, the bookings amounting to Rs. 408 lakhs were made through travel agents during 1982-83. In 18 out of 28 cases during 1983-84 to 1987-88, expenditure on conferences and seminars was incurred without prior sanction; expenditure of Rs. 11.76 lakhs on air fare of 87 foreign participants, to be borne by the sponsoring countries, was met by the Council. Royalty of Rs. 2.03 lakhs accumulated till 1987-88 under Maulana Azad Memorial Fund had not been distributed by way of prizes. The Council failed to organise summer camps for foreign students during 1983—85 to 1986-87. The Council proposed in August 1976 to establish a cultural window in Bonn but was set up in March 1985 only and was closed in January 1987 as its utility and output did not match its expenses, amounting to Rs. 15.00 lakhs per annum.

The National Cultural Festival, Delhi Society, was hurriedly formed in September 1986 to organise the Apna Utsav from 8th to 26th November, 1986 without observing financial rules and procedures. Against the approved budget of Rs. 500.50 lakhs for holding festival, Rs. 551.24 lakhs was actually spent resulting in an excess expenditure of Rs. 50.74 lakhs. Against the estimated cost of Rs. 64 lakhs for site development, the Municipal Corporation of Delhi spent Rs. 131.47 lakhs for which no detailed accounts were rendered to the Society. The payments to artistes for performance, their expenditure on travel, board and lodging were made without framing any norms. In respect of seven works worth Rs. 22.97 lakhs, open tender system was not followed. In 49 cases, quotations for making purchases/entrustment of works at competitive rates were not called for and payment of Rs. 14.22 lakhs was made at the rates charged by the firms. Proper records for materials purchased, got fabriated, consumed, and balance left were not maintained. Shortage/loss of stores worth Rs. 2.15 lakhs was also noticed. No independent mechanism was evolved to evaluate the achievements and drawbacks of the festival.

Infructuous expenditure of Rs. 7.61 lakhs was incurred by the Asiatic Society Calcutta by abandoning the M.Phil course of two years duration on Manuscriptology and Oriental studies introduced in July

1985, after first batch of scholars completed their courses in June 1987 without obtaining any degree, since the Society could neither get the course recognised by any Indian University nor get the Society declared as Deemed University for awarding degrees.

Review on National Council of Educational Research and Training brought out that Rs. 399.05 lakhs was paid during five years upto March 1988 as scholarships under the National Talent Search Scheme. Large number of awardees had dropped out at various levels of studies; NCERT had neither kept record of awardees, who were successful in post-graduate studies, nor under taken periodical evaluation of the scheme to ascertain its impact, as assured to the Public Accounts Committee in February 1982. In the Department of Measurement, Evaluation, Survey and Data Processing, there was shortfall of 43 per cent in expenditure on training programmes for item writers and 45 per cent on developmental programmes during 1984-85 to 1987-88. In 20 out of 36 cases, material developed during workshops/seminars held from 1984-85 onwards was still not finally ready. During 1983-84 to 1987-88, the Workshop Department could execute only 14 to 41 per cent of the total orders received for supply of primary science kit. Delays ranging from 1 to 59 months were noticed. NCERT did not prepare "Profit and Loss Account", for production of science kit was actually on 'no profit, no loss' basis. It did not conduct review of the optimum capacity of the manpower and machinery and their actual utilisation; under-utilisation of manpower in the production of science kit was noticed. Physical verification of stores was not conducted every year; action was also not taken on the shortages/excesses noticed during physical verifications conducted in 1978 and 1985. Improper planning and delay in taking decisions at the appropriate time by the University of Delhi resulted in escalation of cost of construction of Science Block in Miranda House from Rs. 8.62 lakhs to Rs. 22.55 lakhs, besides delay in completion of work by 15 years, which denied the University the use of its existing laboratory complex for holding its computer course, since it was continued to be used by Miranda House.

PORT TRUSTS

(*i*) In Bombay Port Trust a case of avoidable expenditure of Rs. 2.60 lakhs on procurement of mechanical gear boxes for mooring launches, unfruitful expenditure of Rs. 10.19 lakhs in construction of RCC lift shafts for installation of two goods lifts in Indira Dock which was either decommissioned or earmarked for demolition and recovery of Rs. 2.55 lakhs as additional lease rent and penalty of Rs. 0.10 lakh from a lessee as against the benefit of Rs. 12.75 lakhs derived by him by sub-letting the premises and subletting a portion of the premises during March 1981 to August 1984 against the provisions of the lease deed, were pointed out.

(*ii*) In Calcutta Port Trust, deficiencies in indenting procedures and processing the indents due to use of Stores Manual prepared in October 1960, non-clearance of fifty six cases of imported materials involving Rs. 60.94 lakhs at the dock for periods ranging upto 10 years, non-settlement of as many as 375 claims for loss of coal in transit involving Rs. 16.12 lakhs pertaining to the period from June 1968 to June 1983, non-preference of any claim on Railways for diverting a consignment of coal in 1984 worth Rs. 9.40 lakhs, which became time barred, abnormal delay of seven years in finalisation of the results of physical verification and stock adjustments, unadjusted advance payment of Rs. 915.48 lakhs in March 1988 made to suppliers, of which Rs. 337.25 lakhs were for the period prior to 1986-87, adoption of consumption as maximum storing level against the norm of not exceeding 40 per cent of the issue of each item of the preceding year and excess maximum storing level in 27 items by Rs. 16.17 lakhs and heavy balance of non-stock items amounting to Rs. 105.18 lakhs in March 1987, were pointed out. Although the Port Trust had incurred an expenditure of Rs. 22.24 crores on maintenance dredging of the channels during 1982-83 to 1986-87, the required depth could not be achieved and Rs. 1.45 crores spent during November 1985 to March 1986 on a temporary scheme of dredging gutter over the Balaribar proved unfruitful and consequently, the Port Trust had to open the alternative Rangafalla channel at a cost of Rs. 0.89 crore to maintain navigation. The Port Trust also undertook a recession scheme of the sand flat in February 1988, but the scheme was discontinued in April 1988 after incurring an expenditure of Rs. 2.13 crores. A capital dredging scheme sanctioned by Government in August 1982 at a cost of Rs. 11.05 crores was to commence within two years of commencement of execution of a guidewall. The guidewall work, taken up in December 1982, was not completed (October 1988) and the capital dredging was yet to commence. The Trust did not levy surcharge which resulted in overcharging of Rs. 23.36 lakhs in respect of coastal vessels and under-charging of Rs. 56.22 lakhs in respect of foreign going vessels during April 1983 to March 1988. Thus, the Port Trust suffered a net loss of revenue amounting to Rs. 32.86 lakhs during the period 1983—88 due to non-levy of surcharge on the basic rates in respect of foreign going vessels and the net rebate in respect of the coastal vessels in Haldia dock. Two electric motor driven capstans purchased in July 1982 at a cost of Rs. 8.10 lakhs could not be put into operation so far as they were not suitable for pit-type outdoor application at Kidderpore dock basin resulting in wasteful expenditure. Six flame proof electric capstans, procured in October 1980 and installed in July 1982, had not been commissioned (October 1988) because of non-procurement of missing parts of the machine which blocked a capital of Rs. 30.73 lakhs for over six years.

(*iii*) Kandala Port Trust could not avail of price reduction of Rs. 10 lakhs on procurement of conventional tug due to delay in receipt of Government sanction within the extended date of the tenders.

(*iv*) The work of construction of an outer protection arm to Bharathi Dock for a length of 1005 metres from the existing arm of the main harbour of Madras Port Trust was awarded to a firm in October 1978 for Rs. 6.48 crores to be completed by August 1981 but was actually completed in March 1986. After the agreement was executed and work was started certain concessions were granted to the contractor - payment of Rs. 166.12 lakhs as escalation charges, which was allowed even beyond the scheduled date of completion of work, reduction in the prescribed rate of hire charges for crane resulting in refund of Rs. 10.18 lakhs, extra payment of Rs. 22.59 lakhs for rehandling of stones stocked in the harbour and increase in the hypothecation advance to the contractor from Rs. 77 lakhs to Rs. 117 lakhs and reduction in the rate of recovery of advance. A loss of revenue of Rs. 7.27 lakhs on 4849 containers handled during 27th January, 1984 to 1st April, 1985 was sustained due to irregular reduction of hire charges for the use of gantry crane for loading or unloading inland container depot. Irregular reductions of the schedule of hire charges for providing reefer plug points resulted in short levy of hire charges amounting to Rs. 3.96 lakhs for the period upto 3rd September, 1985.

(*v*) The mechanical ore handling plant, Mormugao Port Trust commissioned for commercial operations in October 1979 was running in loss but the accumulated deficit was Rs. 15.55 crores, despite repeated revision of handling rate and rebate based on level turnover. Proposal for revision on basic handling rate from Rs. 28.22 to Rs. 34.00 per tonne and reducing the maximum surcharge rebate from Rs. 8.80 to Rs. 4.50 per tonne made in August 1986 was pending with Government.

(*vi*) Reimbrusement of customs duty to the contractor resulted in irregular expenditure of Rs. 73 lakhs in Nhava-Sheva Port Trust. Extra expenditure of Rs. 7.17 lakhs was incurred by Paradeep Port Trust in procurement of tug. The tug commissioned in August 1984 remained idle and blocked up Rs. 35.73 lakhs.

The Indian Institute of Technology, Kharagpur sustained a loss of Rs. 15.98 lakhs on recovery of electricity charges during four years upto March 1987 in distribution of electricity, although it was intended to be on 'no profit, no loss' basis, due to less realisation of electricity charges from the campus residents, when the Institute paid more to State Electricity Board, West Bengal for purchase of electricity as bulk consumer.

Reorientation of Medical Education, a Centrally sponsored scheme launched in 1977 to expose medical students and faculty members to rural development and upgrade the quality of health care services in rural and peripheral areas, was introduced in Varanasi in 1978 and in Aligarh in 1981 by the Institute of Medical College, Aligarh Muslim University. Though the scheme envisaged the medical colleges to cater to the total health care of the entire district in which the medical colleges were located within a period 3 to 5 years, yet the medical colleges had confined their activities to the three Primary Health Centres which were taken up at the beginning of the scheme. Even the mobile clinics (issued three to each college) could not be utilised to their full extent and purpose.

REPORT* ON MUNICIPAL CORPORATION OF DELHI

It contained 20 paragraphs including 4 reviews on results of test audit of the financial transactions of the Municipal Corporation of Delhi under Section 14(2) of the CAG's Act. None of paras was responded to by the Administration/Ministry of Home Affairs. The annual accounts of three wings of the Municipal Corporation of Delhi were heavily in arrears - 1984-85 onwards of Delhi Electric Supply Undertaking and Delhi Water Supply and Sewage Disposal Undertaking and for the years 1985-86 to 1987-88 of the General Wing of the Corporation.

The irregular removal of garbage in East Delhi resulted in insanitation and the compost plant had been working unsatisfactorily and remained largely under utilised. Advances to the extent of Rs. 18.28 crores made by Conservancy and Sanitation Engineering Department to various suppliers upto 1987-88 had not been adjusted. Excess payment of Rs. 2.50 lakhs was made to two firms on account of excise duty, which was exempted by the Government. There was a delay upto seven years in disposal of 160 vehicles. Under Mid-day meals scheme, against the norm of 75 paise per day per child approved by the Planning Commission, the Corporation incurred only 40 paise per child per day.

Development schemes : Inspite of availability of funds for providing community halls and community latrine blocks in 135 rural and 96 urban villages, the facilities had not been provided in any of the villages. Although a provision of Rs. 2,000 lakhs was made in 1981 for acquisition

* No.13 of 1989 finalised on 1st June, 1989 and presented on 18th July, 1989.

of land for providing community services etc. in unauthorised regularised colonies, land has not yet been acquired. Overall survey was also not undertaken for providing facilities in unauthorised regularised colonies. In six divisions, 2,205 development works, started from 1975-76 onwards, involving Rs. 353.79 lakhs had remained incomplete. Welfare measures for labour were not enforced in four divisions. The value of materials costing Rs. 51.07 lakhs issued to contractors upto 1986-87 had not been adjusted.

Avoidable expenditure on roads : Extra expenditure of Rs. 46.74 lakhs was incurred in awarding the works for improvement and strengthening of road-phase II, due to delay in deciding on the offers within the validity period; extra expenditure of Rs. 18.69 lakhs was incurred in awarding work of improvement of roads-phase III in unauthorised regularised colonies due to delay in taking decision within the validity period of the offer and extra expenditure of Rs. 4.31 lakhs resulted due to omission to indicate lower rates approved few weeks earlier for certain items in item rate contract for improvement of roads - Phase IV. Extra expenditure of Rs. 6.09 lakhs in awarding the work for the construction of 200 staff quarters at seelampur beyond the validity period of tender received.

Malaria Eradication Programme : Substantial population areas requiring different rounds of spray operations had not been covered during 1984 to 1987. Houses, requiring focal spray around detected malaria cases had not been sprayed to the extent of 84 to 94 per cent. The shortfall in the utilisation of insecticides for spraying operations was above 70 per cent. Tests for determining the efficacy of the insecticides used and the entomological studies for the susceptibility of mosquitoes to these insecticides were not conducted. The Health Department had 49.33 lakhs *prima quine* tablets which were time-barred and were unfit for human consumption. 12 lakh tablets of other drugs had been lying unissued for periods ranging from 3 to 13 years.

Delhi Water Supply and Sewage Disposal Undertaking : As against the assessed requirement of 472 million gallons of water daily (MGD) by the end of 1987-88, the Undertaking could supply only 391 MGD resulting in shortfall of 80.75 MGD, which was 17 per cent of the requirement. Infructuous expenditure to the extent of Rs. 78.61 lakhs had been incurred on construction of three Ranney wells, which had not been operating since their commissioning. Out of 251 trans-Yamuna unauthorised regularised colonies, sewerage and drainage facilities had not been provided to 250 colonies. Out of 541 such colonies in Delhi, the facilities had not been provided to 433 colonies. Drinking water supply was not available in 106 such colonies. The measures taken to control the persisting water pollution caused by 17 drains carrying sullage/waste water into the river Yamuna had not been adequate.

The delay of more than five years in the completion of Kondli sewage treatment plant in Shahdara resulted in additional cost of Rs. 25 lakhs. There had been delays in completion of 12 major works for water supply, sewerage and drainage ranging from 6 to 82 months. The undertaking had been running in deficit from 1969-70. Accumulated deficit of the undertaking by the end of March, 1988 was Rs. 24,976 lakhs. Arrears of revenue amounted to Rs. 2,478.72 lakhs on account of water charges recoverable from consumers and for bulk supply of water and sewage disposal facilities to New Delhi Municipal Committee and Delhi Cantonment. The stock of cast iron pipes of various sizes worth Rs. 279 lakhs was enough to meet the requirements for 3 to 20 years. The value of stock of 750 mm diametre, which was sufficient for 20 years, was Rs. 94.29 lakhs indicating inadequate inventory control. Physical verification of stores had not been done during 1985-86 to 1987-88. Cash advances of Rs. 222 lakhs made to suppliers had not been adjusted for period up to eight years.

Delhi Electric Supply Undertaking : Extra expenditure of Rs. 2.70 lakhs was incurred due to delay in taking decision on the tender, extra expenditure of Rs. 6.59 lakhs in awarding two supply orders for supply of 150 transformers (1,000 KVA). Extra expenditure of Rs. 3.79 lakhs was incurred in procurement of 25,000 street light fluorescent tube fittings - over and above the requirements based on consumption, which resulted in blocking of funds of Rs. 38.13 lakhs. Expenditure of Rs. 2.32 lakhs on purchase of earth wire proved infructuous as the goods were found defective on receipt and the material had not been replaced so far.

PAC ON REPORTS

Public Accounts Committee examined almost all paras appearing in the various Audit Reports till 1968. when selective examination of paragraphs was adopted. The Committee examined 2029 paras and 9 reviews included in 26 Audit Reports for the years from 1950 to 1972-73, and presented 138 original Reports and 139 action taken reports. Seven to 42 months were taken to present their reports to the Parliament and the average time lead was around 12 months. Action taken reports were presented in 6 to 40 months, and the average time taken was 15 months, after submission of the original reports. In all, the Committee made 4785 recommendations on the 138 original reports presented by them to the

Parliament. Analysis of the action taken reports on these recommendations covering ARs upto 1972-73 indicated that 2454 recommendations were accepted by Government, 956 were not pursued by the Committee after consideration of the Government's replies, in 410 cases the Government replies were not acceptable to the Committee, who reiterated their earlier recommendations and on 965, cases either no replies were received or replies received were of interim nature.

After adoption of the selective approach for scrutiny of the ARs, 45 reviews/53 paras out of the total 167 reviews/936 paras included in the ARs 1973-74 to 1986-87 were examined in-depth by the Committee. The area of selection worked out to 27 per cent in the case of reviews and 6 per cent in the case of individual paras, which indicated the shift in emphasis in their approach to the contents of Audit Reports. 67 original Reports incorporating 2481 recommendations were presented by the Committee. The time lead ranged from 7 to 47 months and the average was around 18 months. The Committee has presented original reports in respect of ARs upto 1985-86. The Committee took 5 to 48 months, the average being 18 months to finalise and submit action taken reports. Out of the total of 2481 recommendations made by the Committee, 1222 were accepted by Government; 461 were not pursued by the Committee in the light of the Government's replies; the replies furnished by the Government in respect of 310 were not found acceptable by the Committee, who reiterated their position; and in 155 cases replies furnished were of interim nature. Action taken reports in respect of 323 recommendations contained in 12 original reports were yet to be finalised (March 1989).

In respect of the paras/reviews selected by the PAC for oral evidence, the administrative Ministries concerned sent notes to the Lok Sabha Secretariat on action taken or proposed to be taken by them on the recommendations made by the Committee in their Reports. Notes on points on which further information was required by the Committee were also sent. The draft notes intended to be sent were vetted by AGCR/DACR with reference to the relevant original files and papers based on which the notes were drafted by the Ministries. From April, 1982, notes* on the remedial/corrective action taken by the Ministries on the points included in the paragraphs not selected for detailed examination by the Committee were required to be furnished within a period of six months.* The Ministry of Finance (Department of Expenditure) acted as the coordinating agency and collected all the remedial/corrective action taken notes, duly vetted by Audit, from the

* Vide Lok Sabha Secretariat O.M. No. 4/282/PAC dated 19th April, 1982.

various ministries and forwarded them to the Lok Sabha Secretariat in a consolidated form in batches. The responsibility for timely submission of the remedial/corrective action taken notes rested with the Ministries. Remedial/corrective action taken notes on paras not selected for detailed examination in the Reports upto 1983-84 were submitted after getting them vetted by Audit. In respect of the reports from 1984-85 and onwards, out of a total of 75 paras on which remedial/corrective action taken notes were required to be submitted. action was completed in respect of 53 paras and in the remaining 22 cases action taken notes were awaited (March 1989).

Reports presented during each Lok Sabha and their disposal by the PAC is given in the table below :

Nomenclature of the Lok Sabha	Reports and contents Number of			Action by PAC Number of			Final Disposal			
	Reports	Paras	Reviews	Original Reports	Recommendations	ATR	A	B	C	D
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
1st Lok Sabha	10	367	-	6	228	6	59	52	4	113
2nd Lok Sabha	6	386	-	6	770	6	433	172	34	131
3rd Lok Sabha	5	674	-	33	1793	34	823	436	122	412
4th Lok Sabha	4	499	-	46	1112	46	676	176	123	137
5th Lok Sabha	9	372	15	68	1874	66	962	354	310	248
6th Lok Sabha	5	165	26	12	639	12	372	147	69	51
7th Lok Sabha	8	295	63	21	543	22	329	79	56	79
8th Lok Sabha (upto 1983-84 Audit Reports)	18	342	73	13	307	2	22	1	2	282
	65	3100	177	205	7266	154	3676	1417	720	1453

A=Accepted, B=Not pursued, C= Not accepted by PAC, D=Interim replies.

SELECTED REVIEWS

STATE TRADING SCHEME

The Review* contained audit comments on Carriage contracts entered into during 1968-69 and 1969-70. Five carriage contractors failed to deliver

* Para 33 with 5 sub-paras of AR 1970-71 signed by Shri S. Vasudevan and countersigned by Shri S. Ranganathan on 11th March, 1972 and presented to Parliament on 17th March, 1972.

stores worth Rs. 2.36 lakhs entrusted to them for carriage against which Administration held Rs. 0.39 lakhs only as deposit and it was stated that suits were proposed to be filed against them. The godown losses during 1967-68 to 1969-70 were Rs. 6.76 lakhs, which was one per cent of the value of stores handled, as against 0.01 per cent held reasonable by a team of officers earlier. In a large number of cases percentage of losses of various stores was far in excess and ranged from 0.57 to 100 per cent. The Administration stated investigation and enquiry will be held in abnormal cases of losses. Shortage of 139 quintals of rice worth Rs. 0.19 lakhs was noticed during physical verification. Loss of 0.34 lakh due to irregular dispoal of 421 quintals of rice and 3.76 quintals of mustard oil to a local contractor by verbal negotiation and an enquiry was ordered and report was awaited. Stores worth Rs. 0.38 lakh were found either short or damaged during physical verification at Bastar. During July 1967 to March 1970, the value of commodities lost in air dropping to various air bases was Rs. 14.82 lakhs as against stores worth Rs. 296.62 lakhs handled; the percentage of losses ranged from 1.68 to 11.43 and the losses were mostly attributed to bursting of bags and misdropping of loads in inaccessible areas and although losses beyond 4 per cent to 5 per cent were to be investigated, the Administration stated that the question of setting up a joint committee was referred to Government. Disposal of unserviceable parachutes showed no realisation despite their big sizes. 23,185 parachutes were lying in stock as they were outmoded. 10 cases of misappropriation of Government money/sale proceeds of stores (Rs. 1.25 lakhs) were noticed and investigation/disciplinary proceedings were under way.

GOVERNMENT OPIUM FACTORIES*

The Review highlighted the delay over 5 years in setting up a new Alkaloids Project at Neemuch and consequent increase in cost (Rs. 53 lakhs in March 1965 to Rs. 117.736 lakhs in April, 1970. The construction commenced in October 1970 and no firm date for the completion of the project was fixed. The net annual gross profit was estimated at 47% on the total capital investment. The areas licensed and cultivated and the raw opium produced during the last five years were given to bring out the shortfall in production with reference to the estimates in each of the years and the yield of raw opium per hectare and the declining yield of raw opium per hectare, which was attributed by the Ministry to the

* Para 50 with 9 sub-paras of AR 1970-71 signed by Shri S. Vasudevan and countersigned by Shri S. Ranganathan on 11th March, 1972 and presented to Parliament on 17th March, 1972.

fluctuation in the area of actual cultivation and adverse climatic conditions. The sub-para on production performance incorporated data on the actual output of manufactured opium in both Ghazipur and Neemuch factories, comments on non-fixation of targets of production and standards for evaluating the efficiency of production suggested by PAC. Deficiencies noticed in the manufacture of opium at Ghazipur were stocking of opium on the floor instead of polythene sheets for long periods which prevented detection of losses in transit, storage in vats which involved wastage in handling, drying opium in wooden trays for weeks and handling of material manually which caused avoidable wastages. The suggestion of the Special Officer for improving handling procedures were yet to be implemented. The storage and manufacturing losses at various stages for the last 5 years were given along with recommendations made by the PAC for reducing losses and Government's assurance on them. Measures to eliminate arrears in weighment were under examination and the question of reducing losses was referred to CSIR. The transit losses amounted to Rs. 1.41 lakhs and sanction of competent authority to write off these transit losses was awaited. Comments under costing and accounting were that deficiencies pointed by PAC persisted in Ghazipur Opium Factory, even though commercial accounts were introduced from April, 1970, accounts of the factory continued to be maintained on single entry basis and due to non-maintenance of journal, ledger, etc. there was delay in the compilation of proforma accounts. There was no departmental manual. The output and cost of production of the major products for the last 5 years were given with suitable comments. the closing stock of raw opium and sundry stores for the last 5 years was given with comments on holding, non-fixation of minimum/maximum and reordering level, non-completion of physical verification in Ghazipur factory, non-furnishing of annual certificate in prescribed form by the district officers.

RELIEF OF DISTRESS CAUSED BY NATURAL CALAMITIES*

The para was the first all India review based on study of expenditure and test check of records, accounts etc., pertaining to a few districts in each state and detailed findings were included in Reports on states Governments presented to the respective Legislatures and important matters regarding the nature and extent of relief, measures undertaken and expenditure incurred out of central assistance were included in the

* Para 1 of Supplementary Report 1973-74 signed by Shri S.P. Gugnani and countersigned by Shri A. Baksi on 3rd January, 1976 presented to Parliament on 21st January, 1976. It contained 9 chapter 86 paras in 165 pages.

review on Union government. The nature of relief, the trend of expenditure (Rs. 907.48 crores in 9 States during 1969-70 to 1973-74, of which Central assistance was Rs. 832.78 crores, mostly to 4 states), modifications of principles governing central assistance from time to time, Famine codes, form of relief the organisational and administrative arrangements for implementation of the programme were discussed. The extent and nature of calamities in 12 States and 3 Union Territories were dealt with in the fourth Chapter - 17 paras on 36 pages - which contained, interalia, expenditure on relief works, their analysis according to the kind of works and object, their execution as noticed during test check in Districts/blocks, various discrepancies, irregularities, shortfalls and deficiencies. State-wise findings were incorporated in fifth chapter, which contained 10 paras/124 sub-paras spread over 38 pages. Chapter six dealt with gratuitions relief (Rs. 110.48 crores), giving state-wise analysis of audit findings in 11 sub-paras on 5 pages. In the Seventh chapter audit comments on other relief measures state-wise and category wise were incorporated in 13 paras spread over 34 pages. Chapter eight on expenditure, accounts and central assistance brought out that 18 states spent Rs. 832.78 crores, 75% expenditure cleared by Government of India subject to ceilings - two third was grant and one third loan, assistance given was Rs. 632.42 crores on drought, Rs. 758.89 crores on floods, Rs. 42.99 crores on cyclones, Rs. 0.50 crore on snow fall for five years ended 1973-74. The grants and loans were not adjusted for various reasons and the ineligibility for assistance availed of was one of the main bottlenecks. The last chapter on long term and other programmes with 12 paras in 23 pages contained comments on drought prone areas programme and drought relief production programme in Uttar Pradesh. Relief works programme were renamed as DPAP, which started as non-plan sector programme for which an outlay of Rs. 100 crores was proposed. The programme covered 56 districts and contiguous areas in 18 other districts in 13 states in April 1970; Rs. 111.81 crores was approved and Rs. 104.49 crores was spent upto March 1973. The programme was reoriented during mid-term appraisal when the primary focus was placed on development works so as to provide a permanent solution to the extent possible for the drought problems rather than on schemes mainly to create employment opportunities. Comments on programme implementation, state-wise and component-wise, were, given. The conclusions were, absence of information on physical content of the programme, inadequate outlay, incomplete works without any tangible results, non-realisation of additional irrigation potential, invisible impact of afforestation work, and difficulty to include the impact of the programme for want of information data and reports. Test check of DRPP in UP for augmenting irrigation facilities in 14 drought affected districts, launched in September/October 1973 with an outlay of Rs. 9.47 crores to be met out of long term loans and planned to be completed by March 1974 to bring an additional area of 1.34 lakhs acres under irrigation revealed that these were incomplete, no substantial increase in irrigation potential, non-energisation of pump canals and dealy in lining of canals.

PAC made* 44 recommendations which covered the various points brought out in the review. The total expenditure and Central assistance during the Fourth Plan period was somewhat liberal and even over-generous and greater care and prudence could and should have been exercised in regulating the expenditure on relief on distress from natural calamities and in ensuring that the large sums of money pumped into the economy produced tangible and lasting benefits and that wide aberrations and infructuous activities were avoided. Pumping of large sums of money in an economy unable to absorb them was, in the final analysis, not very beneficial. Greater financial restraint and discipline should have been ensured by the Centrtal government and the step that was ultimately taken in April 1974 to curb the excessive zeal of the State Governments in incurring expenditure on relief should have been taken earlier when it came to be known that the existing regulatory mechanisms were not functioning properly and effectively. An evaluation to determine the continuing benefits which flowed from the investment would provide valuable lessons for the future and should be under taken forthwith. A constant and vigilant eye on the functioning of the revised scheme of Central assistance should be kept so as to take timely corrective measures whenever found necessary and also to ensure that the requirements of financial discipline and the needs of State Governments in times of real distress were happily bound together and harmonised. A satisfactory method of accountal of relief expenditure after taking into account all the factors and difficulties involved should have been evolved in advance. Necessary famine codes and scarcity manuals containing well-defined criteria and clearly laid down procedures for the conduct of relief operations should be got finalised in consultation with the State governments to obviate the need for *ad hoc* measures in times of distress and the Centre should take the lead and evolve a set of guidelines and principles. Initiative should be taken by Central Government to devise a system by which natural calamities and their extent as well as the relief measures necessary was reported upon with the utmost expedition and in as accurate a manner as possible so as

* 5th Report (1977-78) Sixth Lok Sabha presented on 5th December, 1977.

to enable prompt and appropriate measures being taken to alleviate distress. The preponderant emphasis placed on road building and metal breaking works without adequate attention being paid to their long term utility was adversely commented upon. The government should identify the factors responsible for the limited success of the schemes and for integrating measures for relief employment with on going major and medium irrigation schems for great success of future schemes in the event of a natural calamity. Funds earmarked for employment-oriented schemes should be utilised by the States to the maximum extent possible in keeping with the Government's aims of finding productive jobs for the unemployed millions. The assessment by the Central Team should be more pertinent and informative so as to see that the agreed objective of expending relief on approved Plan schemes to provide gainful employment to drought hit people was better achieved. Centre should know countemporaneously how the acelerated financial assistance under the modified scheme from April 1974 was in fact being expended in the field for implementation of approved Plan schemes. Maximisation of the percentage of resources devoted to the actual implementation of the schemes in the field by reducing the overheads on departmental charges, contractors agencies etc. was desired, if necessary by laying down suitable norms. The Central Government should evolve, in consultation with State governments, guidelines and principles for the grant of gratuitous relief and commend them to the State Governments for observance which would make for uniformity of approach to the problem. Delays and deficiencies in the administration of such measures should be eliminated by the executing agencies. Action for the Government in suddenly stopping all schemes except irrigation schemes in July 1973 was precipitous. Under the changed development strategy in the Fifth Five Year Plan emphasis was on development of pasture, dairy and cattle in Rajasthan. Concerted measures to speed up implementation of the programmes in the field were called for. Concerted efforts should also be made to implement the irrigation schemes as per time schedule so as to alleviate the difficulties of the people in the drought prone areas in West Bengal. More resources should be allocated to this sector of the programme.

The importance of integral approach to the development of the area was emphasised so that the resources on the various schemes and projects operating in the region were deployed to the best advantage of the region. Although more than Rs. 92 crores were spent on this programme during the Fourth Plan, the monitoring of the programme was totally inadequate. Detailed instructions in this regard should be laid down for the guidance of all concerned and there should be conclusive follow up to see that these were implemented in letter and spirit, so that the objectives underlying the schemes were achieved. A close watch on the pace of implementation of all programmes financed wholly or substantially by Government of India, even if these were executed by State Governments, should be kept.

Action taken report* indicated that 35 recommendations/observations were accepted by Government; 4 recommendations/observations were not pursued by the Committee after receipt of replies and in respect of 5 recommendations/observations *viz.* recommendations 21, 30, 36, 42 and 43, the replies of Government were not acceptable to committee and the position was reiterated.

UNIVERSITY GRANTS COMMISSION**

The Commission was wholly financed by government grants and separate funds were provided for plan and non-plan expenditure. The receipts and payments of the Commission increased from Rs. 2347.07 lakhs and Rs. 2400.42 lakhs in 1969-70 to Rs. 6,167.84 lakhs and Rs. 5,845.22 lakhs respectively in 1975-76 and there were considerable expansion in higher education - 89 universities and deemed universities with 3297 colleges with a total enrolment of Rs. 17.93 lakhs in 1969-70 increased to 111 universities and deemed universities with 4388 colleges with total enrolment of Rs. 23.67 lakhs. The non-plan expenditure was Rs. 1181.51 lakhs in 1973-74 and the plan expenditure Rs. 2425.95 and Rs. 2984.62 lakhs and Rs. 2860.60 lakhs respectively in 1975-76. Allocation and expenditure for the various schemes in the Fourth Five Year Plan were given which fell broadly under general development programme, quality improvement, other special programmes, students welfare programmes and other schemes. Rs. 25.10 crores was provided for quality improvement (as against Rs. 70.30 for general development programmes) and actual expenditure was Rs. 13.02 crores. Shortfall in students welfare programmes was 19.5%. Larger proportionate share of grants to central and deemed universities, *inter se* disparity to release of grants, and wide diversity in the grants released to different colleges were pointed out. 2977 colleges out 4308 colleges were recognised by the Commission as eligible for assistance but several colleges could not avail of the assistance on account of difficulty in regard to the requirement of matching grants. Rs. 5.88 crores was paid as maintenance grants to the newly established constituents/affiliated colleges of Delhi University

* 93rd Report (1978-79) Sixth Lok Sabha presented on 5th December, 1978.

** Para 48 (21 sub-paras) of Ar. 1975-76 signed by Shri G.B. Singh and countersigned by Shri A. Baksi on 7-3-1977 and presented to Parliament on 7-4-1977.

from the plan fund which were found in existence even in the easrlier plans. On correspondence courses, Rs. 12 lakhs out of Rs. 1 crore was spent in 12 universities during the Fourth Plan and Rs. 15.60 lakhs out of Rs. 1 crore in the Fifth Plan and only 11 universities could start a limited number of correspondence courses in the Fourth Plan as against 20 universities originally envisaged. The allocation for centres of advance study was Rs. 8 crores but actual utilisation was Rs. 4.01 crores and the effective number of courses was 23 only. An assessment committee recommended that recognition of seven centres on which Rs. 2.90 crores had been spent might be withdrawn. For college Science improvement programme, Rs. 20768 lakhs was released to ill colleges affiliated to 42 universities during 1970-71 to 1974-75. Regional committees for appraisal of their activities had visited only 14 colleges in the West and North regions between July and November 1974; no further committees were constituted to visit the remaining 65 colleges but the follow-up proposals relating to 28 out of 65 colleges at a cost of Rs. 51.25 lakhs were approved and Rs. 9.68 lakhs was released upto September 1976. 45 colleges could not complete the first phase programme till September 1976 and were given extension from time to time; in respect of six colleges to whom grants of Rs. 13.45 lakhs was released in the first phase, further grant for the second phase was not released as their implementation of the programme was not satisfactory. In regard to the University Leadership Project, 25 departments relating to 14 universities were selected for participation in the programme till March 1975; no new department was brought under the purview of the project despite the earlier decision to invite universities, which had more than 20 affiliated colleges providing undergraduate studies in each of the major subjects with strong viable departments. During 1970-71 to 1974-75 the grants amounting to Rs. 93.50 lakhs were released for implementation of the project and test check revealed that on account grants were released without taking into consideration the progress of expenditure and/or large scale unutilised funds. In one University, most of the colleges were starved of lack of basic equipments and library facilities but the university spent only Rs. 2.76 lakhs. In another university out of an allocation of Rs. 3 lakhs for books and equipment, only Rs. 0.47 lakh were spent and no affiliated college was rendered any assistance under the schemes. Provision for basic Research for Industrial Development was Rs. 45 lakhs and proposal for starting a few pilot projects for achieving collaboration was at formulation stage. Development grants to 70 universities and 8 deemed universities during the perio 1967-67 to 1973-74 amounting to Rs. 64.53 crores were allocated and Rs. 47.97 crores were disbursed. Rs. 0.43 lakh was released to one deemed university against which there was no allocation. An analysis of the disbursement vis-a-vis allocation was given with comments on modifications, establishment of the Institute of basic Medical Sciences in a University, construction of library building by a university etc. Against an allocation of Rs. 50 lakhs for Adult Education Programme during the Fourth Plan period, the actual expenditure was Rs. 2 lakhs. For the Fifth Plan, grants amounting to Rs. 6.42 lakhs were released in 1974-75 and 1975-76 and for want of assurance only a few universities and that too where the scheme was already in operation in some form or other came forward for implementing the scheme. Under the Scheme for the preparation of University level books by Indian authors, a grant of Rs. 412 lakhs was received by the Commission out of which 36.94 lakhs were released to 53 universities and 34 colleges upto 31st March, 1976. 362 projects had been cleared in various disciplines after screening by subject panels till 30th June, 1976; 55 were subsequently cancelled; 4 projects were completed and books published; 43 manuscripts completed and evaluated as suitable for publication; 18 projects were completed but were awaiting evaluation and 105 projects were in progress for less than 3 years, 52 between 3 and 4 years and 85 for more than 4 years. The scheme did not provide for the publication of the approved manuscripts. Rs. 30.05 lakhs were given as assistance to 78 universities for publication of learned works and doctoral theses; 13 universities who were allotted Rs. 5.35 lakhs did not draw any amount and grants claimed and paid to the remaining universities were Rs. 11.63 lakhs. In all, 350 titles were selected by the universities for publication; information about the print order in respect of 50 titles was not received; order was given in respect of one print for 25,333 copies; print order in respect of 225 titles varied between 500 to 1000 copies, 41 titles between 1,000 and 1,500 copies and 20 titles between 2,000 and 3,000 copies; remaining 13 titles were printed with less than 500 copies. Not even one out of 500 copies of the publication brought out by a certain university in 1964-65 was sold; similar was the case with three other universities in respect of 1,000, 1,100 and 1000 copies of their publications brought out in 1968, 1969 and 1971. The processing of 900 entries received for the National award of prizes to Indian authors in August 1973 was in progress and awards were likely to be announced in 1977-78. Rs. 0.24 lakhs was spent during 1973-74 and 1975-76. Scrutiny of the grants for construction of buildings disclosed revision of costs, long delays, non-receipt of completion reports even in respect of completed works, non-receipt of periodic reports on progress in construction and lack of inspection during construction. Although the Commission allowed 4 per cent of the building cost for preparation of plans and estimates and for supervision, the required competent supervision was not available to a number of construction works undertaken in different parts of the country. The details of maintenance grants to the universities and colleges during 1969-70 to 1975-76 were given which indicated that the per capita maintenance grant ranged between Rs. 5,443 to Rs. 1,072. Comments on budgetary control, accounts and utilisation of grants, were also included. Despite the simplification of procedure, the number of cases of outstanding utilisation certificates did not show any decrease. 12,427 items valued at Rs. 55.38 crores in respect of grants sanctioned during 1973-74 and 1974-75 were due in September 1976 and the details of the certificates due from some of the major Universities were given. Prescribed certificates to the effect that proper accounts of the assets had been maintained, the assets had not been encumbered or disposed of and that they were utilised for the object for which the assistance was given was not watched and most of the institutions did not furnish the certificates. Surplus funds exceeding Rs. 50 lakhs were left with the Commission each year for varying periods, though under the Act, the Commission was required to deposit in bank or invest with the approval of the Central Government but the Commission advanced various practical difficulties in implementing the provisions of the Act.

The PAC examined* the para in four sittings and made 95 recommendations (The Report had 12 sections and 337 pages) and bulk of them related to plan schemes, development grants visiting Committees, financial control and selected programmes. While deploring the scant regard shown by the University Grants Commission to the specific recommendations of the Standards Committee, which it had itself appointed in pursuance of its basic objectives, the committee desired the Ministry of Education and the UGC to devise methods of systematic processing of the recommendations of various expert bodies appointed by the Government to go into various aspects and problems of higher education and prescribe a timebound programme for implementation of such of the recommendations made by the Review committees as were accepted by Government and frame and notify the regulations without furher delay. The Ministry of Education should lay down guidelines for the professors and teachers undertaking foreign tours under the cultural and bilateral exchange programmes and ensure that no signle person was allowed to take undue advantage under the programme at the cost of others equally, if not more, qualified and competent persons; the tours for the non-academics should be drastically

* 73rd Report (1977-78) - Sixth Lok Sabha presented to Parliament on 18th April, 1978.

curtailed and the details of tours should be published in the Annual Report of the Commission. The Ministry of Education and the UGC should carefully frame and notify regulations under Section 27 of the Act ensuring proper exercise by the Commission themselves of the powers and functions assigned to them under the Act. Had the Commission kept a firmer grip on the implementation of the various programmes undertaken during the Fourth Five Year Plan, the achievements would have been far more impressive than what actually were. A sub-committee of the UGC should apply its mind to the progress of the schemes and report to the Commission any laxity in physical performance for timely corrective action. The implementation of the various projects and schemes should be oriented to achieve the plan targets and budgetary provisions therefor and activities should be directed to ensure accelerated efforts by universities and colleges in the field of quality improvement and other special programmes. The universities and colleges should be given clear cut guidelines in regard to each of these schemes and afforded all assistance and expertise needed by them to formulate concrete programmes under the various schemes. UGC should play a psoitive role in creating conditions in which it should be possible for the State Universities and Colleges to take advantage of the facilities of development grant from the UGC in greater measure than hitherto. The application of the principle of matching grants, whereby the release of grants from the UGC was conditional on a certain percentage of expenditure being met by the State Governments/ management should be looked into afresh and modified in such a manner as to prevent its becoming a stumbling block for such universities and colleges in States as were less advanced educationally and economically and were unable to take advantage of the facilities of development grants available from the UGC. Indiscriminate releasing of maintenance grants to almost all the Delhi Colleges in the Fourth Plan out of Plan funds without taking even the Planning Commission into confidence was adversly commented by the Committee who hoped that it would not be repeated in future. Guidelines for affiliation should be evolved, which should be commended to the various state governments and universities for observance while granting affiliation to colleges in future. Measures should be taken to make a larger number of colleges eligible for development assistance from the UGC. The Commission should ensure an even flow of grants to the colleges and avoid bunching towards last years of the plan period. Guidelines for themselves with a view to bring in a measure of balance in release of grants to colleges as between different states and between different universities and try to minimise as far as possible glaring disparities, should be evolved. Classification of colleges should be expedited and should be used for guidance in allocation of grants. Relaxations in favour of institutions in educationally backward areas should be continued and its impact assessed quinquennially. The Commission should lay down time limit for presentation of the report of the Visiting Committee and its consideration by the Commission and accord due consideration to the Reports of the Visiting Committees. Circumstances in which release of Rs. 9.00 lakhs was made to Institutions of Basic Medical Science despite the recommendations of the expert/visiting committee and of the Commission itself should be investigated, including released in excess of the share of two-third assistance made by the Commission in disregard of the prescribed norms and its outcome reported to the Committee. Diversion of funds from one approved scheme to another, however important should be avoided. The UGC should ensure that the building was fully and properly utilised and regular system should be devised for keeping a watch over the progress of such schemes until the production of an acceptable completion certificate in respect of the building project and also for exercising greater prudence in agreeing to schemes for further expansion and development of these universities so that maintenance expenditure on these universities was kept within reasonable limits. The University Grants Commission should go into the question of maintenance grants to the various Central universities with a view to evolve a basis to dilute the glaring disparities. Greater control over the escalation in maintenance expenditure of these colleges should be exercised and a self regulatory mechanism whereby the revised budget estimates based on allocation intimated by Government to the Commission were placed before the Commission for approval not later than one month from the date of receipt of intimation from Government, should be evolved. The Committee felt reassured that the UGC were seized of the problem and hoped that in future the releases of development grants would be more evenly spread out. The form of statement of accounts should be revised to provide for scheme/ programme-wise break up of plan expenditure. A crash programme for liquidating the outstanding utilisation certificates should be drawn up and the utilisation certificates from the universities should be got without any further delay. An in-built system should be devised whereby they could call for the refund of the unspent balances if adjustments thereof against future grants were not possible within a reasonable period and the procedure in regard to the refund of unspent balances by the universities should also be made applicable to the colleges. Reliance on the certificate from the Auditor alone was not enough and in addition, some other independent system should be evolved for ensuring that the funds released by the Commission were actually utilised for the agreed purpose. Correspondence course lessons should be compiled in the form of standard books and published for the use of students. The Commission should give a fresh look to the existing scheme in operation to see whether the creation of three distinct categories of departments eligible for various levels of grants from the UGC was conducive to the purposes of the scheme for Centres of advanced Study as originally envisaged and commended by the Education Commission. The difficulties of the colleges in completing the first phase of the programme should be considered by the Commission and ways and means should be found to get over them. The method and machinery for assessment of work done by colleges under the scheme should be clearly laid down on the basis of experience and it should be strictly adhered to. Quality improvement programme should be given adequate attention and its progress accelerated. The Committee hoped that great financial prudence should be observed in releasing "on account" grants for implementing the scheme in future and "Such a thing will not happen" in future. The objective of proper utilisation of funds could not be advanced as a valid raison d' etre for dismal failure in the achievements of plan objectives and programmes. The recommendation of the Education Commission was not specifically considered by the University Grants Commission. Appointing a Vigilance Officer or in the alternative by exposing its functioning to periodic review by an independent agency outside the Ministry of Education was recommended. Reports to Parliament should include *inter alia* its assessment of problems and perspectives of higher education and of the state of coordination and standards in universities and that 'the annual reports should be circulated to all universities and State Governments'. The Committee were not able to examine some of the aspects commented upon in the Audit paragrah and expected the Ministry of Education and Social Welfare to take due note of the observations of the Audit so as to take remedial action wherever necessary.

The Action taken report* indicated that 78 recommendations or observations were accepted by Government; 10 recommendations or observations were not pursued by the Committee after receipt of replies from Government; 3 recommendations or observations for which replies of Government were not accepted by the Committee was reiterated by the Committee and on 4 recommendations or observations Government had furnished interim replies.

* 141st Report (1978-79) Sixth Lok Sabha presented to Parliament on 25th April, 1979.

THE NATIONAL MALARIA ERADICATION PROGRAMME**

The National Malaria Control Programme launched in 1953, a centrally aided programme from 1958 for implementation by the State Governments for total eradication of malaria within 6 to 7 years and was renamed as the National Malaria Eradication Programme (NMEP). During the Fourth Five Year Plan period (1969-74) it became a centrally sponsored one with 100 per cent grants to the State Governments and from 1977, the strategy of the programme was revamped with a view to effectively controlling and containing malaria and preventing deaths due to malaria instead of its total eradication, and it was called 'Modified Plan of Operations' (MPO). An expenditure of Rs. 526.74 crores had been incurred by the Government of India upto 1980- 81. The main points* noticed were that the number of units under active attack stage of malaria increased from 55.85 in 1966-67 to 97.409 in 1974-75. Rs. 85.69 lakhs towards cost of insecticides and Rs. 124.66 lakhs towards incidental charges were overdue for recovery from the States. Substantial *inter se* variations in the stock position of insecticides and anti-malarials as reflected in periodical returns, annual demands and stock accounts of the states were noticed. Discrepancies between quantities despatched by Central Government and quantities accounted by the States in their records were also noticed. Relevant tests had not been conducted in several states to decide the use of a particular insecticide and in some others, the supply and use of insecticides had not been in accordance with the results of the susceptibility tests. Sub-standard insecticides worth Rs. 588.34 lakhs had been noticed. Coverage under insecticidal spray operations in several states had been very inadequate (less than 50 per cent) over the targeted areas and several areas due for coverage in second and third rounds had not been so covered; focal spray in and around a detected malaria case had practically not been done and the shortfall varied between 91 and 98 per cent during 1977 to 1980. Independent appraisal teams which visited the States, reported very low coverage of spray of insecticides varying between 30 and 50 per cent, as against coverage of 75 to 95 per cent as claimed by the states. The test check revealed that blood smears, which was required to be examined within 7 days of collection, were examined in time in respect of 0.89 lakh cases only out of 1.38 lakh cases and out of 1086.12 lakh cases of fever cases detected, blood smears were not collected in 518.74 lakh cases and further collection of blood smears by active staff of

** Para 7 (12 sub-para on 34 pages) of AR 1980-81 signed by Shri M.M. Mehta and countersigned by Shri Gian Prakash on 1st May, 1982 and presented to Parliament on 9th July, 1982.

the Department declined from 74.00 lakhs in 1977 to 64.02 lakhs in 1979 though collection by outside agencies increased. Radical treatment with primaquine, required to be given for five days in all fever cases, was delayed by more than 10 days in 8 lakh cases out of 15 lakh cases test-checked in audit and in some states, radical treatment was not administered at all for 11.30 lakhs out of 31.26 lakhs fever cases. Consumption of anti-malarials was substantially high in 5 states as compared to estimated quantity needed for positive cases; consumption was 2913 lakhs 4 AQ tablets and 891 lakhs AQ tablets against requirement of 2265 lakhs 4 AQ tablets and 616 lakhs 8 AQ tablets. The excess consumption involved extra expenditure of Rs. 111.55 lakhs. The incidence of malaria under the Modified Plan of Operations introduced in 1977 continued to be appreciably high as per records, apart from the fact that a large number of cases might have gone unrecorded. Thus, while eradication of malaria had to be given up as an objective after nearly two decades of operation, the effective control and containment of the disease envisaged in the later scheme was yet to be achieved. Though one of the objectives of Modified Plan of Operations was to prevent deaths due to malaria, the number of such deaths, according to the Director of NMEP (December 1981), incrased from 55 (1977) to 207 (1980).

The PAC made* 26 recommendations. The Committee felt that the Government should immediately formulate concrete action programmes on the basis of the finding of the two In-Depth Evaluation Committees as well as AR and take concerted efforts with the object of totally eradicating this disease from the country and liked to be apprised of the concrete action programme of Government. More and more units were recommended for entry into 'consolidation' and 'maintenance' phases, which was indicative of negligence and casual attitude on the part of those entrusted with the task of protecting the health of the people and called for a detailed explanation from the concerned authorities. Proper monitoring and reconciliation arrangements should be evolved expeditiously. Immediate steps should be taken to fill up the vacant posts to ensure that entomological coverage was not allowed to fall in arrears. Supply and consumption of insecticides should be regulated strictly in accordance with the results of entomological surveys. Use of sub-standard insecticides could be avoided and spray operations should not be allowed to fall in arrears. Minimum 1/3rd of population should be covered by spray operations every year. Arrangements for timely blood test were to be augmented early. The Ministry should ensure that the

* 161st Report (VII Lok Sabha) presented on 6th August 1983.

organisational and other inadequacies were attended to early and urged that ways and means be devised to arrange sufficient manpower and resources for this important health programme. Strict quality control could be exercised in purchase of drugs. The precise reasons for excess consumption of anti-malarials on such a large scale should be looked into for ensuring suitable action especially for properly regulating the supplies and use in future and action taken apprised to the Committee in due course. The monitoring machinery should be strengthened and concrete follow-up action taken in all cases where deficiencies in the programme were pointed out by the appraisal teams. Urgent preventive measures should be taken up in right earnest not only to contain this disease but to eradicate it effectively in those areas in the country where it was prevalent. The Commmittee regretted that the Ministry was not aware of the Report of CAG on implementation of the programme in States presented to State Governments/Legislatures. The Health Secretary was frank enough to admit before the Committee: "We have been amiss, I might say, not to have kept a track of them" and assured the Committee to take follow-up action and promised to evolve the mechanism to keep a track of such Audit Reports whenever presented in future. The Committee recommended that the Planning Commission and the Ministry of Finance should evolve an arrangement whereby such Reports of the CAG were examined for necessary action both by themselves and by the other concerned Ministries/Departments of the Government of India in so-far-as the responsibilities of the Central Government were concerned.

WELFARE OF SCHEDULED CASTES AND SCHEDULED TRIBES AND OTHER BACKWARD CLASSES

The Review* of 11 schemes for the period 1974-75 to 1981-82 brought out that central assistance of Rs. 6810.12 lakhs for various schemes remained unutilised in March 1982 and for three schemes (Post-matriculation scholarships, book bank and tribal sub-plan), central assistance of Rs. 460.57 lakhs was released in excess of the prescribed pattern. 16 to 54 per cent of the targetted pre-matriculation scholarships amounting to Rs. 5.56 lakhs were awarded in 708 cases without production of caste/income certificates. Rs. 50.64 lakhs were awarded to inmates not belonging to scheduled castes or for courses not covered under the scheme. Excess payment of Rs. 8.36 lakhs was made to 3,025

* Para 34 with 19 sub-paras spread over 47 pages of AR 1981-82 signed by Shri M.M. Mehta and countersigned by Shri Gian Prakash on 23rd March, 1983 and presented to Parliament on 15th April, 1983.

inmates of hostels by awarding scholarships at higher rates. Delays in awarding scholarships ranged from 3 to 21 months after they became due. Books purchased under 'Book Bank' were not fully utilised in all colleges. 10.83 per cent of candidates (275) admitted in the training centres were only finally selected for Central services and 6 and 60 per cent dropped out. Out of 494 buildings for girls' hostels to be constructed during 1974-75 to 1981-82 only 150 hostels were completed. Rs. 245.10 lakhs were spent during 1968-69 to 1980-81 on construction of 59 girls' hostel buildings which were still in progress; in the States of Himachal Pradesh, Punjab and Uttar Pradesh, girls hostels constructed between 1974-75 to 1981-82 at a cost of Rs. 13.09 lakhs, could not be fully utilised or were used for other purposes; subsidies of Rs. 16.17 lakhs given by the Governments of Gujarat and Maharashtra for construction of new hostel buildings were not covered under the scheme. The tribal research centres were established late in Madhya Pradesh, Maharashtra, Tripura and Assam. No training programme had been undertaken in Assam, while in Madhya Pradesh the average number of officers trained was 25 per year, against the capacity of 200 and no official was trained during 1973-74, 1975-76, 1977-78 and 1979-80 and 1980-81. No data banks covering all aspects of tribal life in the region for preparing tribal sub-plans was built up. Against the target of Rs. 4,496.74 lakhs of loans to be disbursed to 3,43,004 beneficiaries, Rs. 1,473.26 lakhs only were disbursed to 1,83,422 beneficiaries during 1978-79 to 1981-82. Out of total dues of Rs. 1152 lakhs, Rs. 524.51 lakhs were recovered in Andhra Pradesh and Punjab upto March, 1982; 939 primary co-operative societies, who were paid subsidies aggregating Rs. 164.32 lakhs had gone into liquidation. No agricultural land was distributed to landless labourers in Uttar Pradesh, despite spending Rs. 15.05 lakhs upto March 1982 on purchase of land, etc. Against Rs. 113.86 lakhs released during 1981-82 for construction of 1,298 work-cum-sale shops in Uttar Pradesh, only 5 shops were constructed upto March 1982. Two projects (cost Rs. 6.67 lakhs) were completed upto March 1982 out of 10 irrigation projects sanctioned in Uttar Pradesh at an estimated cost of Rs. 104.34 lakhs;. In West Bengal 341 shallow tube wells and 10 dug wells were completed at a cost of Rs. 10.92 lakhs upto June 1982 against the target of 800 shallow tube wells and 128 dug wells to be built at a cost of Rs. 15.15 lakhs by March, 1982. In Maharashtra, the performance in respect of terracing and contour building programmes was 27 and 61 per cent of the targets. Construction of 20 compost pits (pucca) proposed for construction during 1981-82 in Uttar Pradesh had not been started. In Tamil Nadu, the completion of soil conservation works fell substantially below the physical target. In Maharashtra, 2,182 cows only were artificially inseminated during 1976-77 to 1981-82 against the target of 33,193; castration and vaccination of the Cattle in Rajasthan during 1979-80 to 1981-82 ranged between 33 to 80 per cent of the targets. 4 jeeps, speed boat and 4 ambulatory clinic vans purchased during 1979-80 to 1980-81 at a cost of Rs. 13.47 lakhs by West Bengal Government remained unutilised. Out of 6 schemes taken up for electrification of 403 villages of Rajasthan, 4 schemes were completed during 1975-76 to 1980-81; of the 4 schemes completed, 138 villages did not have any consumer; only 1,277 agricultural wells were completed against target of 3,425 wells; of 3,800 villages to be electrified in West Bengal, 967 villages only were electrified upto March 1982. None of the 26 irrigation and electrification projects taken up by the Maharashtra Government between July 1966 and December 1979 had been completed and the physical progress of works ranged between 3 and 98 per cent. Out of 7,018 electric motor pumps and 883 oil engines sanctioned during 1973-74 to 1981-82, 5,586 electric pumps and 528 oil engines only were installed. Of these 971 were not in use and in 231 cases, the power connections were disconnected for non-payment of electricity charges; 8 irrigation and electrification works completed in one district of Karnataka at a cost of Rs. 18.41 lakhs did not benefit the tribals, as no tribal family owned any land in that district. Further, against the target of 292, only 79 tribal colonies were electrified during 1976-77 to 1981-82 at a cost of Rs. 11.62 lakhs; in Bihar, out of 405 irrigation schemes spilled over at the end of the fifth five year plan period (1974-79), only 240 schemes were completed by March 1981. Against the target of 1,302 dug wells to be constructed by March 1982 none was constructed; Rs. 0.65 lakh only were disbursed against the target of Rs. 2.07 lakhs towards loans and subsidies by the Rajasthan Government. Out of 59 industrial units to be set up in Uttar Pradesh during 1976-77 to 1979-80, only 1 industrial unit was established (May 1981) giving employment to 3 persons only against the target of 794 persons. Out of 1,587 schemes of local importance taken up by the Bihar Government in the tribal sub-plan areas only 983 were completed; in Karnataka, 1,762 houses only were completed (June 1982) against the target of 3,751 houses to be constructed; protected drinking water was supplied to 117 tribal habitations in 5 districts of Tamil Nadu by the end of April 1982 against the target of 175 tribal habitations; in Assam, survey for integrated tribal development project for understanding their problems and deciding suitable programmes for the sixth five year plan was commenced in December 1977, but the survey report due to be submitted to the Government of India by March 1978 had not been sent even as late as March 1982. Out of 5,915 cases registered with the police in Karnataka and Madhya Pradesh under Protection of Civil Rights Act, 1955, during 1976 to 1981, ~~2,167~~ cases were still pending. The Central Government had undertaken 14 welfare schemes for meeting the special needs of the scheduled castes and scheduled tribes and backward classes involving an aggregate financial assistance of Rs. 1,01,184.85 lakhs during the last 32 years. No evaluation of the results obtained therefrom and their impact on improving the educational, economic and other interests of these communities was made. There was no response from the Ministry of Home Affairs to this para.

UNIVERSITY OF DELHI

The review* *inter alia* brought out that additional allocation of Rs. 180 lakhs on construction works was made by the UGC during the fifth plan period without vetting of the proposals by the visiting committee; under plan development Rs. 41.12 lakhs was over spent. South Delhi Campus established in 1973 to cater to the needs of post-graduates studies in 9 subjects did not achieve the intended objectives and the intake was only 4.4 per cent of the target. The campus was not developed at Dhaula Kuan even after 9 years, against initial expectancy of two years. Departments of Mathematics, Philosophy and History were continued, despite recommendation by the visiting committee in July 1976 for winding them up. Certain language courses had no students upto 1974-75 but teachers continued from 1970-71. The out-turn of Ph.D. in case of 5 courses in Humanities during 1976-77 to 1980-81 was about 4 per cent. All the 65 teachers who attained the age of 60 years during the past 14 years were re-employed to the maximum age of 65 years, though the rules provided for re-employment only of distinguished teachers. Out of 66 titles prepared for publication in the Directorate of Hindi Medium Implementation upto March 1978, 23 were published, out of Directorate's publication valuing Rs. 11.88 lakhs, sale was only to the tune of Rs. 0.87 lakh. While the University press established in 1961 did not keep records about the utilisation of the printing machines, analysis of data available indicated 14 to 24 per cent utilisation of machines. Equipments worth Rs. 22.26 lakhs were lying idle in 4 departments of the University since 1965. Out of 19 major works (costing more than Rs. 5 lakhs each) taken up for execution since 1976 and scheduled for completion upto November 1981, only 8 works were completed after delays ranging from 4 to 24 months; the remaining 9 works in which delays of 8 to 46 months had already occurred were still in progress.

* Para 66 with 12 sub-para on 20 pages of AR 1981-82 signed by Shri M.M. Mehta and countersigned by Shri Gian Prakash on 23rd March, 1983 and presented to Parliament on 15th April, 1983.

Bank guarantees of Rs. 0.72 lakh furnished by 3 contractors were not renewed after their expiry dates, which resulted in non-recovery of Rs. 1.07 lakhs from the contractors; large differences between bank balances as per bank account and cash book remained to be cleared for long periods. While administrative and technical staff increased by 33 per cent during the period April 1978 to March 1981 the student strength declined by 33 per cent. No periodical physical verification of library books was undertaken. The Ministry of Education and Culture Department of Education did not reply to the comments.

ACCELERATED PROGRAMME OF WELFARE FOR WOMEN AND CHILDREN AND NUTRITION PROGRAMME

The review* brought out that expenditure of Rs. 6943.50 lakhs was incurred out of the grants-in-aid of Rs. 7177.27 lakhs disbursed during 1975-84 and Rs. 536.97 lakhs of unutilised amount remained with 22 States and Union Territories. Expenditure against grants amounting to Rs. 222.10 lakhs was not reported by 5 States but grants of Rs. 335.37 lakhs were released to them in subsequent years; Rs. 124.71 lakhs was released as grants-in-aid for 19 projects, which did not report to the Ministry; Central assistance accounted for in 5 States and two Union Territories was less by Rs. 85. 29 lakhs and more by Rs. 144.83 lakhs in 10 States and 2 Union Territories; expenditure accounted for in 13 States and 3 Union Territories was more by Rs. 554.55 lakhs and less by Rs. 55.33 lakhs in 4 States and 2 Union Territories; 9 States/2 Union Territories had unutilised amount of Rs. 721.17 lakhs out of Rs. 3682.88 lakhs provided for supplementary nutrition during 1975-84 and the Ministry did not monitor the quantity and value of supplies made by UNICEF to projects. Rs. 896.98 lakhs were advanced to States/Union Territories/Organisations for training of ICDS functionaries during 1980-84. No details of training courses actually conducted at various training centres and the moneys unutilised were made available. The amount reimbursable by the UNICEF could not be ascertained in the Ministry's records and achievements against targets of beneficiaries under ICDS scheme were not supported by records; 14 per cent CDPOs, 24 per cent supervisors and 35 per cent anganwadi workers could not be trained as on 31st March, 1984; in 101 projects in 19 States/Union Territories, it was observed that beneficiaries were not identified and enlisted for supplementary nutrition on the basis of prescribed norms; in

* Para 6 with 13 sub-paras on 52 pages of AR 1983-84 signed by Shri O. P. Goel and countersigned by Shri T. N. Chaturvedi on 8th May, 1985 and presented to Parliament on 16th May, 1985.

152 projects in 13 States/Union Territories, supplementary nutrition was not provided for 300 days in a year to the selected beneficiaries. In 44 projects in 6 States menus of supplementary nutrition did not specify the calorific value and protein content and in other 6 States/Union Territories, the food did not provide the required quantity of calories and protein; in 108 projects in 18 States/Union Territories, the therapeutic food was not given to severely mal-nourished children; in 4 States and 1 Union Territory, the health status of mal-nourished children who received supplementary nutrition for over a year, did not improve; out of 63267 anganwadis in 735 reporting projects in 31 States/Union Territories, only 51078 anganwadis (80 per cent) were providing non-formal preschool education as on 31st March, 1984 and average number of children per anganwadi was 35.94; Out of 151 projects in 19 States/Union Territories, health and nutrition education was not provided in 36 projects while in remaining 115 projects, it was provided mainly through home visits by anganwadi workers; in 281 projects in 13 States, 24 to 34 per cent of the sanctioned posts of Medical Officers, Lady Health Visitors and Auxiliary Nurse Midwives were lying vacant till March 1984; no enumeration of pregnant women and nursing mothers and children under 5 years of age and assessment of their immunisation and health status were carried out in 65 projects in 12 States/Union Territories; no records of health check up of expectant mothers ranged between 22 to 100 per cent in 36 projects of 8 States; records regarding identification for eligility and administration of iron and folic acid tablets were not maintained in 4 States. Post natal cards were not maintained in 53 projects in 9 States/Union Territories and the requisite health check up of children was not fully carried out in 116 projets in 17 States/Union Territories. No child cards were maintained in 56 projects in 6 States. 460 out of 511 anganwadis in 5 States/Union Territories were not visited by medical staff and in 51 anganwadis, there were no records of any health check up of children. The shortfall in health check up of children ranged between 42 to 97 per cent in 9 States; 63 to 100 per cent of children in 26 projects in 7 States/Union Territory were not administered Vitamin 'A' solution; no records of immunisation were maintained in 40 projects in 7 States/Union Territory and in 4 States, the records maintained were incomplete and the shortfall in coverage of immunisation ranged between 16 to 96 per cent in the case of expectant mothers in 7 States and 25 to 98 per cent in the case of children in 6 States/Union Territory. No referral system linking anganwadis with referral hospital/upgraded Primary Health Centre existed in Jammun & Kashmir and in 98 projects in 8 States/Union Territory, no data on referral services or follow up action were available. Funds to the extent

of Rs. 137.32 lakhs for monitoring of health and nutrition aspects of ICDS schemes, were released by the Ministry to the AIIMS who released Rs. 103.04 lakhs to the ICDS health functionaries upto the year 1983-84, out of which Rs. 8.54 lakhs remained unutilised with them and the quarterly reports on health inputs and services in all ICDS projects to be obtained from the ICDS functionaries and submitted to the Ministry by the AIIMS were, however, submitted to the Ministry upto December 1981 only and the reports submitted thereafter did not contain data of health inputs and services. No targets for training/orientation of medical and paramedical staff were fixed. The percentages of advisers and medical officers trained/oriented upto 1982-83, 1983-84 were, 73,63,93,57 respectively and no data of training were available for lady health visitors and auxiliary nurse midwives. No records were available about meetings of coordination committee at central level, out of 11 States, state level coordination committees had not been constituted in 2 States, while in 2 States it had not met since constitution and in the remaining States, the meetings had not been held as prescribed. Monitoring and evaluation of the scheme by the Ministry did not cover referral services, availability of accommodation for anganwadis and CDPO's offices, coordination committee meetings at Block level, availabity of safe drinking water in the project area, immunisation and health check up of children and women etc. The scheme of Functional Literacy of Adult Women was implemented in States and Union Territories during 1975-84 as a Central sector scheme in ICDS project areas involving a total expenditure of Rs. 1203.09 lakhs against the total grants of Rs. 1853.36 lakhs resulting in net shortfall in expenditure of Rs. 650.27 lakhs and monthly progress reports of 101 projects for the month of March 1984 showed that against the target of 11.48 lakhs women, only 1.06 lakh women completed the prescribed course and 0.15 lakh (1 per cent) women were awarded certificates since inception of the scheme indicating net achievements against Rs. 18.53 crores advanced to States/Union Territories for the scheme upto 1983-84. Against the norm of 30 women per class, the average attendance was less than 50 per cent in 17 States/Union Territories and in some projects, women continued to attend training classes much beyond 10 months, ranging from 2 to 4 years. Of the 52 projects, no woman completed the course in 39 projects (75 per cent). Out of 103 projects, prescribed tests after 10 months course were held only in 15 projects (14 per cent). No dossiers were maintained in 72 out of 73 projects; out of 9519 anganwadis of 108 projects, teachers' kits were shown as insufficient in 1198 anganwadis, (12 per cent) and 1388 anganwadis (15 per cent) had no kits. In 9 projects of Madhya Pradesh, basic equipments costing Rs. 13.33 lakhs were purchased in excess of the prescribed ceiling. In 6 projects of Delhi, Uttar Pradesh and Orissa, 32 knitting machines costing Rs. 0.98 lakh were lying idle. No account of finished products prepared in FLAW classes was available in 5 projects and in 22 projects, items worth Rs. 3.80 lakhs were only sold, out of raw material worth Rs. 18.05 lakhs purchased upto 1983-84.

LIST OF ABBREVIATIONS

1.	AG CR	—	Accountant General, Central Revenues
2.	AG CWM	—	Accountant General, Commerce, Works and Miscellaneous
3.	AG, FIS	—	Accountant General, Food Industry and Supply
4.	As.G	—	Accountants General
5.	AG	—	Accountant General
6.	AAG	—	Assistant Accountant General
7.	AO	—	Audit Officer
8.	AAO	—	Assistant Accounts Officer
9.	AIR	—	All India Radio
10.	AT	—	Acceptance of Tender
11.	ATR	—	Action Taken Report
12.	AIIMS	—	All India Institute of Medical Sciences
13.	AR	—	Audit Report
14.	BSF	—	Border Security Force
15.	CAG	—	Comptroller and Auditor General
16.	CGA	—	Controller General of Accounts
17.	CAO,FRS	—	Chief Accounts Officer, Food, Rehabilitation, Supply
18.	CPAO	—	Chief Pay and Accounts Officer
19.	CDPOs	—	Child Development Project Officers
20.	CRPF	—	Central Reserve Police Force
21.	CPWD	—	Central Public Works Department
22.	CSIR	—	Council of Scientific and Industrial Research
23.	CAG's(DPC)Act	—	Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act
24.	DAG	—	Deputy Accountant General
25.	DAG(W)	—	Deputy Accountant General (Works)
26.	DC(P)	—	Deputy Commissioner (Police)
27.	DA	—	Director of Audit
28.	DsA/AsG	—	Directors of Audit/Accountants General
29.	DACR	—	Director of Audit, Central Revenues
30.	DDA	—	Deputy Director of Audit
31.	DDO	—	Drawing and Disbursing Officer
32.	DAs	—	Divisional Accountants
33.	DGSD	—	Director General, Supplies and Disposal
34.	DA,FRSCS&M	—	Director of Audit, Food, Rehabilitation, Supply Commerce, Steel and Mines
35.	DPAP	—	Drought Prone Area Programme
36.	DRPP	—	Drought Relief Production Programme
37.	DCRG	—	Death-Cum-Retirement Gratuity
38.	ECPA	—	Efficiency-Cum-Performance Audit
39.	FLAW	—	Functional Literacy for Adult Women
40.	FAD	—	Forest Audit Department
41.	fob	—	Free on Board
42.	GAD	—	Gazetted Audit Department
43.	GM	—	Gazetted Miscellaneous
44.	GI	—	Government of India
45.	IAAS	—	Indian Audit and Accounts Service
46.	IAAD	—	Indian Audit and Accounts Department
47.	ICDS	—	Integrated Child Development Services
48.	ITDC	—	Indian Tourism Development Corporation
49.	IRLA	—	Individual Running Ledger Account

50.	JD/DD	—	Joint Director/Deputy Director
51.	HAD	—	Higher Audit Department
52.	LDCs	—	Lower Division Clerks
53.	LAC	—	London Audit Current
54.	LIG	—	Low Income Group
55.	L&DO	—	Land Development Officer
56.	MCD	—	Municipal Corporation of Delhi
57.	MGD	—	Million Gallons of Water Daily
58.	MPO	—	Modified Plan of Operations
59.	NDMC	—	New Delhi Municipal Committee
60.	NCERT	—	National Council of Educational Research and Training
61.	NMEP	—	National Malaria Eradication Programme
62.	OAD	—	Outside Audit Department
63.	OA	—	Outside Audit
64.	OB	—	Objection Book
65.	OSD	—	Officer on Special Duty
66.	P&T	—	Posts & Telegraphs
67.	PSU	—	Public Sector Undertaking
68.	PAC	—	Public Accounts Committee
69.	PWD	—	Public Works Department
70.	PAO	—	Pay and Accounts Officer
71.	RCC	—	Reinforced Cement Conerete
72.	Sr.DAG	—	Senior Deputy Accountant General
73.	SAS	—	Subordinate Accounts Service
74.	SO	—	Section Officer
75.	SGC	—	Slection Grade Clerk
76.	SG Ars/Ars	—	Selection Grade Auditors/Auditors
77.	SD	—	Special Duty
78.	SKM	—	Special Metallic Security
79.	TAD	—	Treasury Audit Department
80.	TM	—	Treasury Miscellaneous
81.	TB	—	Tuberculosis
82.	UDC	—	Upper Division Clerk
83.	UNICEF	—	United Nations International Children Emergency Fund
84.	UGC	—	University Grants Commission
85.	USA	—	United States of America
86.	WM	—	Works Miscellaneous
87.	WAD	—	Works Audit Department

SOURCES AND REFERENCES

1. Indian Audit and Accounts Department by Shri M.S. Ramayyar
2. Manual of Office Procedure of the Office of the AGCR/DACR - All Editions
3. TAD, GAD, Pension Audit, WAD DAD, Embassy Audit, IRLA, Book, Fund, Account Current, Finance Compilation, Report Section, ECPA sections' Manuals of the office of the AGCR/DACR - All Editions
4. Appropriation Accounts (Union Government - Civil), 1946-47 to 1987-88
5. Finance Accounts of Union Government, 1945-46 to 1987-88
6. Audit Report (Union Government - Civil) 1947 to 1989
7. Combined Finance and Revenue Accounts of Union Government 1947-48 to 1985-86
8. Statements of sanctioned strength

9. PAC Reports relating to Appropriation Accounts and Audit Reports thereon for the years 1945-46 to 1987-88, in general and PAC Reports as under, in particular
   - 5th Report (1977-78) VIth Lok Sabha
   - 73rd Report (1977-78) VIth Lok Sabha
   - 93rd Report (1978-79) VIth Lok Sabha
   - 141st Report (1978-79) VIth Lok Sabha
   - 161st Report VIIth Lok Sabha

23 Accountant General, Commerce, Works & Miscellaneous

BEGINNING

Initially known as Audit Officer, Indian Stores Department in 1923 and Chief Auditor, Indian Stores Department in August 1939, when its jurisdiction covered the accounting and audit functions of the newly created Supply Department, the office came to be known as Controller of Supply Accounts in September 1940. Its jurisdiction included the accounting and audit of both civil and defence transactions, when it functioned under the Military Accounts Department, with a branch office at Calcutta under a Deputy Controller from January 1941 to deal with payment and accounting of purchase of stores handled by the Director General of Munitions Production, Calcutta. The designation was again changed to Chief Controller of Supply Accounts in August 1942 and the Deputy Controller as Controller. Another branch office under a Controller was formed in Bombay in October 1942 to deal with payments against contracts by the Controllers of Supplies, Bombay and Madras and the Deputy Director General, Cotton Textiles Directorate, Bombay. A separate Controller's office was set up from 1st March, 1943 to deal with transactions relating to the newly created Department of Food. After the transfer of collieries to the Department of Supply in 1944 the organisation of Controller of Coal Accounts came under its jurisdiction. A separate Controller was appointed to head the Supply Accounts Office at Delhi, as in Calcutta and Bombay. The Supply Accounts Organisation consisting of the offices of the Chief Controller of Supply Accounts and Controllers of Supply Accounts, Delhi, Calcutta and Bombay was transferred to the Indian Audit and Accounts Department in April 1947 and was designated as Accountant General, Food, Industries and Supplies. Work relating to the accounting and audit of defence transactions was transferred to the Controller of Military Accounts and the Coal Accounts to the Director of Railway Audit.

ACCOUNTANT GENERAL, FOOD, REHABILITATION AND SUPPLY

The designation was first changed to Accountant General, Food, Relief and Supply and subsequently to Food, Rehabilitation and Supply (FR & S) with branch offices at Calcutta and Bombay. The Accountant General was assisted by two Deputy Accountants General at Headquarters to deal with transactions pertaining to Industry and Supply and Food and Rehabilitation respectively and one each at Calcutta and Bombay. He consolidated the accounts of all the DAsG and despatched them to AGCR, prepared and submitted material for Combined Finance and Revenue Accounts to CAG and for Finance Accounts and Appropriation Accounts - Central (Civil) to AGCR. He prepared and submitted the Review of Balances to CAG and also furnished material for Budget Estimates of Revenue Receipts, Service Charges, Debt, Deposits etc., estimates of the Departments under his audit and Remittance Account between England and India. The DAsG located at New Delhi, Calcutta and Bombay were the Heads of offices, who were delegated suitable powers accordingly. The strength of the office in 1950 was 1139 - comprising 9 IAAS officers, 23 AAOs, 95 SAS Accountants, 1 DA, 673 SGCs/UDCs, 6 Stenos, 155 clerks and typists and 177 class IV employees. A second edition of the Manual of the Supply Audit Department of the Accountant General, F.R. & S, as on March 1955, was brought out by Shri P.N. Krishnaswamy, Chief Pay and Accounts Officer, which explained the nature and scope of the contracts of Director General, Supplies & Disposals, procedure for processing bills for supply of stores, general principles of audit of expenditure, audit of bills for supply of stores and recording results of audit, their pursuance, payment of supply bills, audit and accounting procedure of stores, sale proceeds of surplus and obsolete stores disposed by the Central Disposal Organisation, overseas purchase other than food grains and concurrent local audit for the use and guidance of Audit and Accounts organisation. The Compilation Section under an AAG compiled the accounts received from all DAsG by 20th of the following month and sent them to AGCR on the last day of the following month.

The main duties and functions were pre-audit, payment and accounting of bills against contracts entered into by the Director General, Supplies and Disposals and his regional offices, by the Chief Director of Purchase (Food) and the Ministry of Food & Agriculture, accounting and audit of disposal of surplus stores, including American surpluses, through the Disposals Wing of the Director General, Supplies and Disposals and accounting of purchases through India Supply Mission, Washington. Accounting and audit of payments against contracts placed by the Ministries of Works, Housing and Supply and Food and Agriculture directly on foreign suppliers and accounting and audit of the Ministry of Works, Housing and Supply and its attached and subordinate offices, Industry Wing of the Ministry of Commerce and Industry and their attached and subordinate offices, the Ministry of Production and its attached and subordinate offices, the Ministry of Food and Agriculture (Department of Food) and its attached and subordinate offices and the Ministry of Rehabilitation also formed a part of his work. His responsibility was discharged through the DAsG. They were authorised to process draft paras on important financial and other irregularities relating to these transactions. The three DAsG, Industry and Supply at New Delhi, Calcutta and Bombay were entrusted with payment, accounting and audit work of suppliers' bills against contracts issued by the Director General, Supplies and Disposals. The entire work relating to disposals, credit and accounting and also the accounting work of overseas purchases (other than those by the Ministry of Food and Agriculture) was centralised under the DAG, Industry and Supply, New Delhi. The work in respect of contracts issued by the Ministry of Food and Agriculture including overseas purchases was allocated to the DAG (Food and Rehabilitation) at New Delhi, who was also responsible for the accounting and audit of transactions pertaining to the Ministry of Rehabilitation. The Supply Audit Sections were mainly responsible for the audit of acceptances of tender and pre-audit and payment of suppliers' bills. The Supply Miscellaneous Section coordinated the work of Supply Audit Sections and dealt with questions of a general or miscellaneous nature relating to supply audit. Concurrent local audit of purchases as well as of disposal contracts was carried out on a regional basis by the concurrent audit parties attached to the various purchase organisations, who examined the regularity and propriety of the purchases made by the Director General, Supplies and Disposals and his subordinate purchasing officers as well as by the Ministry of Food and Agriculture. The disposal sections were responsible for audit and accounting of sale proceeds of surplus, waste and obsolete stores. The Overseas Purchases (Industry and Supply) section watched adjustment of expenditure on overseas purchases effected through the India Supply Mission, Washington. Table below gives the strength of organisation in 1955.

	AG	DAG	AAOs	SAS Acco-unt-ants	Asstt. Supdt.	SGCs/ UDCs	LDCs	Stenos	Class IV emplo-yees	Total
AGFRS	1	4	24	70	39	542	136	7	132	955
DAG I & S Calcutta	-	2	9	29	18	217	62	3	62	402
DAG I & S Bombay	-	1	5	15	6	97	25	2	29	180
Total	1	7	38	114	63	856	223	12	223	1537

The first ever major scheme of separation of accounts from audit in a Civil Department in the post-independence period was introduced in Food, Rehabilitation and Supply Departments, in April 1955, when separate Pay and Accounts Offices were formed under the control of a Chief Pay and Accounts Officer, who was vested with the responsibility for payment and accounting of transactions of those Departments. 1372 officers and staff of AG, FR & S - 4 IAAS officers, 28 AAOs, 91 SAS Accountants, 63 Asstt. Supdts., 790 SGCs/UDCs, 211 LDCs, 10 Stenos and 175 class IV employees were transferred to the new Pay and Accounts Organisation. The system of common cadres for staff in both the organisations and transfer on deputation basis in a few cases was followed so as to facilitate mobility of staff both ways until the new organisation stabilised. The payment, accounting and audit work of the Ministries of Commerce, Industry and Production was entrusted to a separate office, known as DAG (PCI), which had a strength of 200 - 6 AAOs, 19 SAS Accountants, 4 Asstt. Supdts., 117 SGCs/UDCs, 24 LDCs, 1 Steno and 28 Class IV employees.

CHIEF AUDIT OFFICER

The residuary office of nearly 200 officers and staff was entrusted with the audit of the Departments of Food, Rehabilitation and Supply and the head of office was redesignated as Chief Audit Officer (FR & S). The CAO had three wings - OAD and CA Cell, Concurrent Audit and Statutory Audit and the distribution of officers and staff was 127 at Delhi, 43 at Calcutta and 25 at Bombay. The central test audit sections at headquarters and the branch offices at Bombay and Calcutta conducted the audit of the transactions dealt with by the Pay and Accounts Offices in the respective places. The concurrent audit wing test audited the contracts entered into by the Purchase and Disposal organisations with reference to original files containing the indents, tenders etc. The audit and accounting work relating to the Ministry of Commerce, Industry and Production performed by the DAG (PCI), was transferred (March 1958) to the Chief Audit Officer (FR & S) and the strength of the office then became 749 (5 IAAS officers, 25 AAOs, 69 SAS Accountants, 444 SGCs/UDCs, 7 Stenos, 89 LDCs/Typists and 110 class IV employees. The CAO was redesignated as Director of Audit (F.R.S.C.S & M) from April 1958. The staff strength rose to 927 by October 1961. The audit and accounting work relating to the Central Public Works Department including 142 Works Divisions, Ministry of Irrigation and Power and Ministry of Transport and Communications was transferred to his office from the AGCR on a functional basis along with the officers and staff in November 1961.

ACCOUNTANT GENERAL, COMMERCE, WORKS & MISCELLANEOUS

The name of the office was changed to Accountant General, Commerce, Works and Miscellaneous. Shri P.K. Rau who was the Director of Audit became the Accountant General,and remained so until May 1964. The functions assigned to the new office were the statutory audit of transactions relating to the Secretariat portion of the Department of Agriculture and Works & Housing,and complete portion of the Director General of Supplies and Disposals and separated Pay and Accounts Offices of these Ministries, the payment, accounting and audit of the Ministries of Industrial Development and Company Affairs (Department of Industrial Development), Commerce, Petroleum and Chemicals, Irrigation and Power, Steel, Mines and Metals, Transport and Shipping, Tourism and Civil Aviation (including their departments), Directorate General, Technical Development, Central Public Works Department, Central Water and Power Commission, Meteorological Department, Directorate of Estates, Directorate of Horticulture, Geological Survey of India - Northern and Western Regions and the audit of statutory bodies like Khadi and Village Industries Commission, Coal Board, Tea Board, Faridabad Development Board, Textile Committees, ICAR (non-Government side), Indian Standards Institution etc. The strength of the office was 1715 (15 IAAS officers, 33 AAOs, 131 SAS Accountants, 171 DAs, 962 SGCs/UDCs, 13 Stenos, 198 LDCs/Typists and 192 class IV employees). The accounting and audit work relating to 101 Central Public Works and CW & PC Divisions located in different States was decentralised and transferred to the Accountants General in whose territorial jurisdiction the divisions were located. The divisional accountants of the decentralised divisions were allotted and transferred to the control of the respective State Accountants General on the basis of their options. The State Accountants General were required to make confirmations, promotions to selection grade and upgradation of posts to SAS grade after consulting the AG, CWM. The strength of the office was reduced to 1373 - 13 IAAS officers, 32 AOs, 124 SAS Accountants, 1 DA, 823 SGCs/UDCs, 14 Stenos, 172 Clerks/Typists and 194 class IV employees) and AG was assisted by 5 group officers. The distribution of supervisory work was as under :

A.G.	Sr.DAG (Works & GAD)		Sr. DAG (Inspection)	DAG (Admn.)	DAG (Funds & Pension)	DAG (Accounts)
-Report	-Works Miscellaneous	Gazetted Audit Department	-Outside Audit Department (Civil)	-Administration	-Provident Fund	-Establishment Audit Department
-Book	-WAD		-Test Audit	-Establishment	Pension	-Compilation
-Budget and Appropriation	-Rent Audit Party I & II		-Concurrent Audit	-Cash -Hindi -Manual	-Foreign Service -Computerisation of PF accounts	-Accounts -Book (Routine) -Loan -Cheques
-ECPA -Interal Audit	-RAP Badarpur -OAD (Works) -OAD (Field Parties)		-Local Audit Parties	-Training -General Section		

There were 61 sections - 2 administration, 5 gazetted audit, 2 departmental audit, 9 establishment audit, 4 provident fund, 4 test audit, 1 store audit, 5 concurrent audit, 12 works audit/works miscellaneous, 3 account current and 14 other miscellaneous sections like report, book, pension and foreign service and general sections. Administration, establishment and general sections dealt with matters relating to personnel and house keeping. The gazetted audit sections regulated the pay and allowances of the gazetted officers of the ministries and departments under the audit control of this office and allied matters, including the preparation of pension papers of the retiring officers and conducted pre-audit and post-audit of their personal claims. The GM section functioned as the coordinating section for all the GAD sections, besides guiding them in dealing with all complex issues in the day to day work. The departmental audit sections compiled the accounts of receipts and payments under different major heads of the various ministries and departments including periodical reconciliation of departmental figures with those booked in accounts. The account current section dealt with all transactions, which were adjustable in other circles of accounts and passed them on to the Accounts Officers concerned through the media of outward exchange and settlement accounts, besides making monetary adjustments. Book section coordinated the entire accounting functions of the office. Establishment audit sections pre-audited and post-audited the personal claims of various categories of non-gazetted establishment and claims relating to contingencies, grants-in-aid etc. Provident fund sections maintained individual accounts of all subscribers to various provident fund systems including correspondence in respect of missing credits and connected work like issue of annual account slips, scrutiny of sanctions regarding temporary advances, final withdrawals etc., final payment of provident fund money and transfer of accounts to new Accounts Officers, where necessary. Pension section scrutinised the pension papers received from the departments in the case of non-gazetted staff and from the GAD sections in respect of gazetted officers and arranged payment of pension/DCRG through the Accountant General of the State, where the payment was to be drawn. Leave salary and pension contributions in respect of officers and staff sent on foreign service were watched by the foreign service sections. The Central test audit sections carried out the statutory audit of the transactions and payments made by the Chief Pay and Accounts office and other Pay and Accounts offices and all sanctions issued by the ministries/departments and the accounts compiled by the Chief Pay and Accounts Officer's organisation in respect of separated Pay and Accounts offices. The Concurrent audit wing scrutinised the purchase contracts in the DG S & D offices with reference to all original records like indents, notices inviting tenders, original tenders, purchase documents etc. and audited the sales of surplus stores arranged by the DG S & D and its branches. Contracts finalised by the Department of Food and Regional Directors of Food for handling, clearance and transport of foodgrains in the storage depots were audited by this wing generally on the same lines as those of DG S & D contracts. WAD sections received the monthly accounts relating to works expenditure along with connected returns, statements etc. from the various central public works divisions, compiled and consolidated them and also conducted detailed audit thereof in the prescribed manner. There were two works miscellaneous sections - one dealt with questions pertaining to general public works accounting and audit procedure, assessment of staff requirements for the WAD group, preparation of draft paras and reviews in respect of works and maintenance of CPWA Code and Book of Forms and the other administered the cadre of divisional accountants. The concurrent rent audit parties scrutinised the records pertaining to realisation of rent by the Directorate of Estates in respect of Government residences and prepared proforma accounts of Government hostels. The OAD headquarters' sections programmed and executed the inspection work, vetted draft inspection reports and pursued them upto finality. The OAD (Civil) and OAD (Works) parties conducted the local audit/inspection of all field units according to the prescribed periodicity, which included scrutiny of all initial accounts records and also vouchers not submitted to Audit. Except small divisions - mostly maintenance - incurring expenditure upto Rs. 15 lakhs and situated in remote areas,- all other divisions were inspected once in each half year. Each party had an AO, two SAS Accountants and one LDC. Processing and finalisation of the material for the Central Audit Report and rendering assistance to the PAC constituted the major functions of the Report section.

The joint cadre of staff appointed prior to April 1955 in the offices of the CPAO and the AGCW & M was separated from April 1971, and allocated to the respective offices finally. Those who were on deputation to either of the office were reverted to the office from which they had proceeded on deputation before April 1971. The strength of the office in March 1972 was 1833 comprising 13 IAAS officers, 46 AOs, 192 SAS Accountants, 2 DAs, 25 Stenos, 1090 SGCs/UDCs, 231 LDCs and 234 class IV employees. From 1st April, 1973, the designations of SAS accountants, SGCs/UDCs and LDCs were changed to section officers, SG auditors/auditors and clerks respectively. A special cell was constituted with one A.O, 2 SOs and 1 clerk for identifying the institutions attracting the provisions of CAG's Act 1971 on the basis of the information collected from different Ministries and for arranging their audit. Information about the institutions located in other States was sent to the respective Accountants General for conducting the audit of those institutions. The cell also took up cases of entrustment/re-entrustment of audit under Section 20(1) of the Act with the Ministry of Finance in respect of institutions located in Delhi/New Delhi. Matters relating to interpretation or clarification of the provisions of the Act were dealt with by this cell. There was some expansion of work in the next four years and the strength in 1976 was 2070, (15 IAAS officers, 73 AOs, 237 SOs, 1179 SG auditors/auditors, 4 DAs, 34 Stenos, 271 clerks/typists, 6 others and 251 class IV employees).

The main functions were accounting, entitlement and audit. Compilation of the treasury and Central public works divisional accounts as well as transactions intimated through the Exchange Accounts by other Accounts offices, rendering the consolidated accounts to the AGCR and furnishing material for Central Finance and Appropriation Accounts constituted the accounting functions. All claims of the officials of the Ministry of Industry, International Trade, Steel, Mines and Heavy Engineering and Petroleum and Chemicals and their attached/ subordinate offices stationed at New Delhi, Bombay and Calcutta were subjected to pre-audit. The claims of officials stationed at other places who were paid at the treasuries through the concerned Accountants General were subjected to post-audit. The claims of the officials of the Ministries of Irrigation and Power, Transport and Communications, Works and Housing and Food and Agriculture (Agriculture Wing) which were transferred from the Accountant General, Central Revenues, were post-audited. Audit under two systems was conducted on the same principle with the only difference that under pre-audit any amount found inadmissible was deducted before payment, while in post-audit the excess amount, if any, paid, was recovered after audit. Determination of pension and issue of pension payment orders, watching recoveries of foreign service contributions and maintenance of provident fund accounts of the gazetted and non-gazetted officers belonging to the Ministries, Departments etc. under the payment control of the office were the other entitlement functions performed. In addition to central audit of accounts and vouchers, local audit of various units, autonomous bodies and public works divisions was undertaken to the extent prescribed. The expenditure incurred by the office was Rs. 175.17 lakhs - which constituted 0.01% of the expenditure of the auditee Ministries/Departments in 1975-76.

DIRECTOR OF AUDIT

The accounting and entitlement functions were transferred during 1976 to the concerned Ministries/Departments along with officers and staff numbering 1274. Shri G.N. Pathak continued to be the head of the newly formed Audit office. Although all the functional responsibilities relating to accounts and finalisation of pay, provident fund and pension and their payments were vested with the PAOs concerned, certain residuary items of work were left to be performed by the office - like GPF balances pertaining to 1515 outstanding accounts, reconciliation of broadsheet of general provident fund relating to class IV employees, correspondence relating to revision of pension cases as a result of retrospective pay revision as per Supreme Court judgement, Pay Commission's recommendations etc. The strength of the office was 790 (9 IAAS officers, 42 AOs, 131 SOs, 372 SG auditors/auditors, 12 stenos, 111 clerks/typists, 4 others and 109 class IV employees). The system of central audit of vouchers and payments as was prevalent prior to departmentalisation of accounts ceased to exist after the formation of the Pay and Accounts offices. The audit of sanctions was conducted with reference to guiding principles enunciated in the Manual of Standing Orders (Technical) and admitted in audit at different levels depending upon the amount involved. A local audit of the accounts and transactions of the Ministries/Departments, attached offices, subordinate offices, autonomous bodies and of banks disbursing subsidies on behalf of Government was carried out by peripatetic parties and local audit was conducted under the Act. While the audit of the Ministries/Departments etc. was generally under Sections 13 and 15, the audit of autonomous bodies was under Sections 14, 15(ii), 19 and 20 of the Act. If any office or department kept accounts of stores and stock, audit was conducted under Section 17. Besides test audit of the records/transactions of the auditee organisations, the internal audit reports as available were looked into by the local audit parties with a view to ascertain the efficacy of internal audit and to take up important aspects for detailed scrutiny. A critical review of all control records in the different Pay and Accounts offices under each Ministry was also undertaken once in three years for an in-depth examination. Audit under Sections 19 and 20 of the Act which involved certification of accounts of the autonomous bodies was completed by 31st August each year to enable Audit Report being placed before Parliament by 31st December.

The responsibility for overall supervision and control of local audit work of various civil formations and public works divisions was distributed among three DAsG. The DAG (Inspection-I) was allocated 35 PAOs of 8 Ministries/Departments - 17 PAOs located at Delhi were audited by audit teams deputed from headquarters office, 8 PAOs at Bombay, 6 PAOs at Calcutta and 4 PAOs at Madras were locally audited by the branch offices and concurrent audit wing of Supplies and Disposals organisation and the resident audit parties functioning in the office of the Joint Chief Controller of Imports and Exports (CLA) and the Ministry of Commerce. The Sr. DAG (Inspection-II) was entrusted with audit of 40 PAOs of 7 Ministries/Departments - 18 audited locally by audit teams from headquarters office at Delhi, 9 by Bombay office, 7 by Calcutta office and 6 by Madras office. The Sr. DAG(W) had the responsibility of local audit of 18 PAOs of 5 Ministries/Departments and 5 PAOs were locally audited by the branch offices - 2 each by Bombay and Calcutta and one by Madras office.

The expenditure of the office in 1977-78 was Rs. 73.54 lakhs which constituted 0.01% of the expenditure of the Departments/Ministries audited. The audit of CPWD divisions was centralised again so that the audit office responsible for the audit of the PAOs also conducted the local audit of all divisions which rendered accounts to PAOs. The audit of CPWD divisions and other engineering units working on public works pattern situated outside Delhi was transferred to AGCWM from January 1978 along with the officers and staff. The office was renamed as Director of Audit, Commerce, Works and Miscellaneous (DACWM) from 1979. Shri M.S. Sarna, the renowned Urdu litterateur, was the last AGCWM, who became the first DACWM.

REORGANISATION

After the restructuring of cadres in March 1984, the duties and functions of different categories of staff were redefined in keeping with the higher pay scales and each member of the local audit party was required to submit a separate report on his audit findings to secure accountability. 57 units/offices under the jurisdiction of public works department of Delhi Administration were transferred to the newly created office of the Director of Audit II, Central Revenues in 1985. The audit of attached/ subordinate offices of the Ministries/Departments outside Delhi was decentralised and transferred to the respective Accountants General in the States from April 1986 but the DACW & M I continued to be the Principal Audit Officer for those units. The audit of the Departments of Atomic Energy, Ocean Development, Space, Environment, Electronics and Science and Technology including Survey of India, Botanical Survey, Zoological Survey etc., Council of Scientific and Industrial Research including its laboratories and units and Indian Council of Agricultural Research was transferred to the newly created Director of Audit, Commerce, Works and Miscellaneous - II, New Delhi in April 1986 along with the officers and staff numbering 398. The residuary strength left with the DACWM I was 418 (41 AOs, 64 AAOs, 21 SOs, 166 Sr. auditors/auditors, 52 clerks/typists, 14 stenos, 46 group D employees and 14 others). The organisation chart of the office of the DACWM-I is given in Figure 23.1.

LOCAL AUDIT

Identification of various aspects for examination in local audit, planning/programming of local audit, vetting, issue and follow-up of inspection reports and processing of important cases for inclusion in the Audit Report were attended to by OAD (Headquarters) and the field parties carried out the local audit. OAD (Civil) Wing was under the group supervision of two Joint/Deputy Directors who were allotted the Ministries/Departments on an even basis. At the head quarters, each

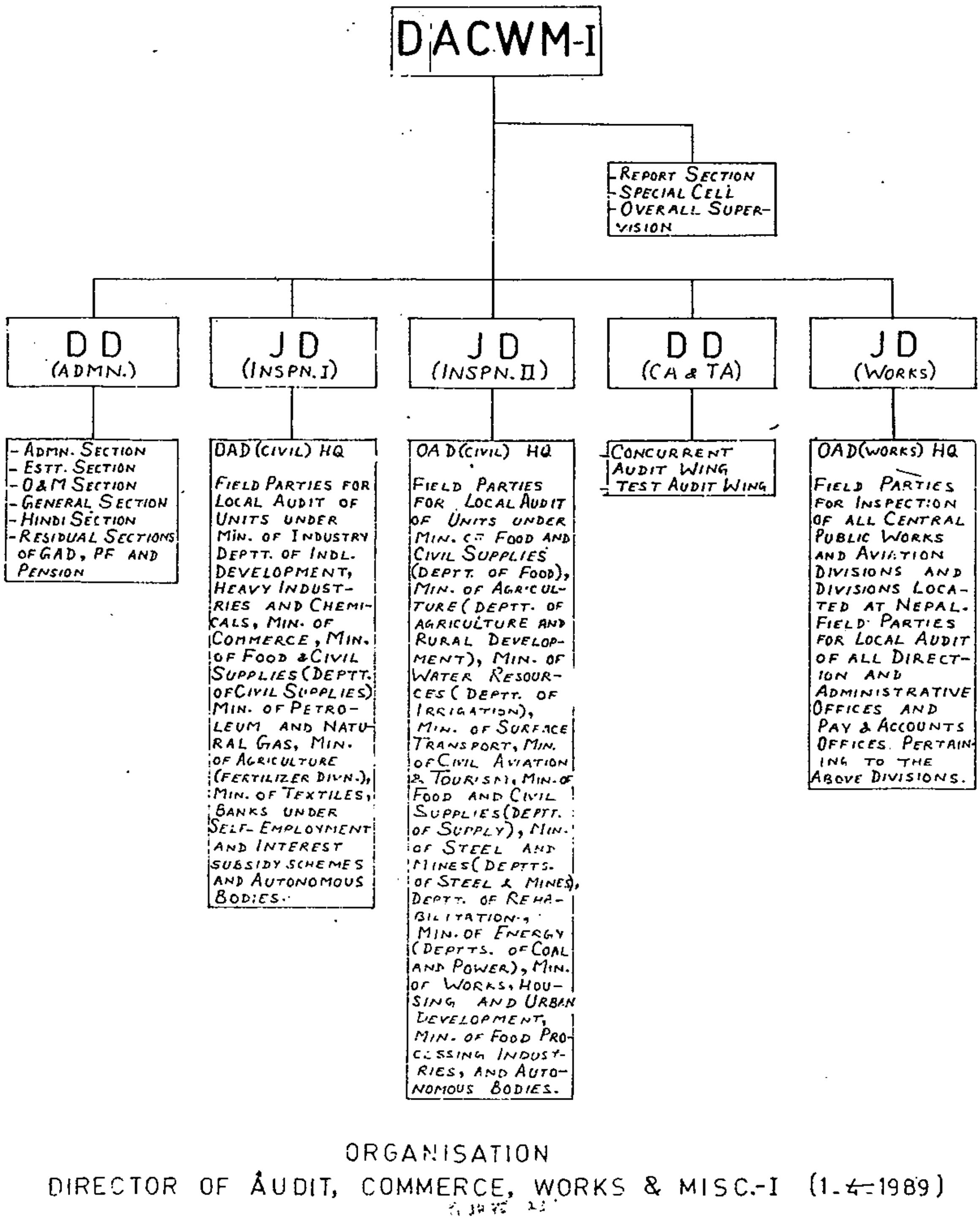


Fig. 23.1. Organisation : Director of Audit, Commerce, works & Misc. I, 1st April, 1989

group officer was assisted by a section comprising 1 AO, 1 AAO and other supporting staff. Eight Ministries/Departments and 14 autonomous bodies were under the audit control of OAD (Civil) - I and eighteen Ministries and 9 autonomous bodies under OAD (Civil) - II. During the period from 1979-80 to 1981-82 the units to be covered and actually covered ranged from 254/177 to 283/232 and the coverage worked out to 70% to 82%. The OAD (Civil) Wing had a total strength of 78 - 38 SOs and 40 Auditors (2 section officers and 17 auditors at headquarters and 20 field parties comprising of 36 section officers 23 auditors) in 1982. One pary of 1 SO/AAO and 2 auditors was added in 1984-85. After the bifurcation of the office into two, the strength was reduced to 65 - 31 SOs/AAOs and 34 auditors (2 SOs/AAOs and 14 auditors at headquarters and 16 parties with 29 SOs/AAOs and 20 auditors in the field). The number of units to be covered in local audit and actually audited varied from 316/283 in 1982- 83 to 299/167 in 1987-88 - the average for the years being 346/270. The reduction in coverage was attributed to the reduction in *de facto* strength after reorganisation of the office. Out of 2077 units to be audited 1621 were audited during the period 1982-83 to 1987-88, the average coverage being 78%. 1519 inspection reports containing 10,928 paras were issued, the average turn- over per year being 253 reports with 1821 paras, while 1965 inspection reports with 13384 paras were settled during the period, an average of 327 reports and 2231 paras. 381 inspection reports containing 1935 paras with an aggregate value of Rs. 1.75 crores were outstanding in March 1988. 16 reviews and 45 draft paras were contributed by OAD (Civil) for Audit Reports 1982-83 to 1986-87. Sanctions for payments of cash assistance to exporters for expansion and diversification of exports, which ran into hundreds of crores of rupees every year, and claims paid thereagainst were test checked in the offices of Joint Chief Controller of Imports and Exports (CLA), New Delhi, Bombay and Calcutta by the resident audit parties functioning under the control of Joint Director, OAD Civil-I. An audit cell also functioned in the Ministry of Commerce since 1972 mainly to prepare paragraphs for the Audit Report by scrutinising original files of the Ministry and other material supplied on the subject. The audit cell contributed more than 40 paragraphs for the Audit Report during 1972-73 to 1987-88.

The contracts entered into by the purchase and disposal organisations, which were of the value of Rs. 3000 crores annually were examined by the Concurrent Audit Wing, comprising 1 group officer of Joint/Deputy Director level, 8 AOs, 7 AAOs/SOs, 1 senior auditor, 3 stenographers and 5 clerks with reference to original files containing the indents, tenders etc. to check that the contracts etc. were finalised correctly and that the purchases or sales were made in the best interests of the State. In the test audit wing, there were two sections with 1 AO, 2 SOs/AAOs, 11 auditors/ senior auditors, 2 clerks, 1 record keeper and 1 group D employee. The central test audit sections audited the stores payments and transactions relating to disposals dealt with in the office of the Chief Controller of Accounts, Department of Supply and Controller of Accounts, Department of Food. The programme of audit was so arranged throughout the year that each supply section was audited once in a month. Transactions arising in a quarter were audited in the respective succeeding quarter. Both the wings contributed 1 review and 35 draft paras for the Audit Report (Civil) for the years 1982-83 to 1987-88.

Before centralisation of audit in 1978 there were 5 OAD (Works) parties comprising 5 AOs/10 SOs, which conducted the audit of CPWD units located in Delhi/New Delhi. After centralisation, the number of parties increased to 15 comprising 15 AOs/30 SOs, including audit of units attached to branch offices at Bombay, Calcutta and Madras. The average number of units audited was 371 per annum. 1988 inspection reports were issued and 1161 settled *i.e.*, an average of 249 and 145 per annum. There were 8 parties in 1986 comprising 8 AOs/16 AAOs/SOs. During 1986-87 and 1987-88, 307 units were audited, 281 inspection reports were issued and 247 reports were settled. 11 Reviews and 62 paras were contributed by this wing for the Audit Report (Civil) from 1976-77 to 1986-87. The reviews were Government Buildings in Delhi (AR 1972-73), Land and Development Office Delhi and Road Development in the 4th Plan (AR 1973-74), Studies of 20 Irrigation Projects in different parts of the country (AR 1975-76), Badarpur Thermal Power Project Stage I (AR 1976-77), Central Ground Water Board (AR 1978-79), Badarpur Thermal Power Project Stage II and National Highways (AR 1979-80), Integrated Urban Development in Metropolitan cities and areas of National Importance (AR 1980-81), Command Area Development Programme and working of the Directorate of Estates, New Delhi and its Regional offices (AR 1982-83), Supply or drinking water to problem villages (AR 1983-84), Badarpur Thermal Power Project Stage III (AR 1984-85) and Working of Land and Development Office (AR 1986-87). 20 to 34 autonomous bodies were identified for audit under Section 14 of the CAG's (DPC) Act, 1971 during 1980-81 to 1983-84. After the raising of the limit of grant to Rs. 25 lakhs from the accounts of 1983-84, the number came down to 13 in 1984-85 and rose to 14 in the two subsequent years. Out of a total of 142 bodies to be audited, 92 were audited and the coverage was 65%. While a maximum of 21 bodies remained to be audited at the end of 1981-82, there was no outstanding in respect of 1983-84 and, as a rule, the audit of bodies that remained to be audited in a year was completed in the next year.

CONTRIBUTION TO AUDIT REPORTS

The important audit findings of AG/DA were included in the Audit Report (Civil) prepared by the AG/DACR. For the Audit Reports 1949 to 1986-87, 798 paras (including 55 reviews) were contributed, the average turnover being 21 per annum. While the minimum contribution was 2 paras in 1955 Report, the maximum was 49 paras in 1966 Report. Reviews appeared for the first time in the AR 1971-72 - Village Leather Industry with 13 sub-paras and Village Palm Gur and other Palm Products with 20 sub-paras - which was signed by Shri T. Narasimhan. Since then, reviews were featured regularly in ARs except 1977-78. The number of reviews ranged from one (1974-75) to eight (1984-85) and the total number of reviews incorporated in the Audit Reports 1971-72 to 1986-87 was 53. Three to nine reviews were contributed by S/Shri G.N. Pathak (1972-73), M. S. Sarna (1978-79 and 1979-80), S. R. Mukherji (1981-82), S.P. Joshi (1982-83 and 1983-84), C.P. Mittal (1984-85), R. Parameswar (1986-87) and D.S. Iyer (1987-88) during their tenure as Accountant General/Director.

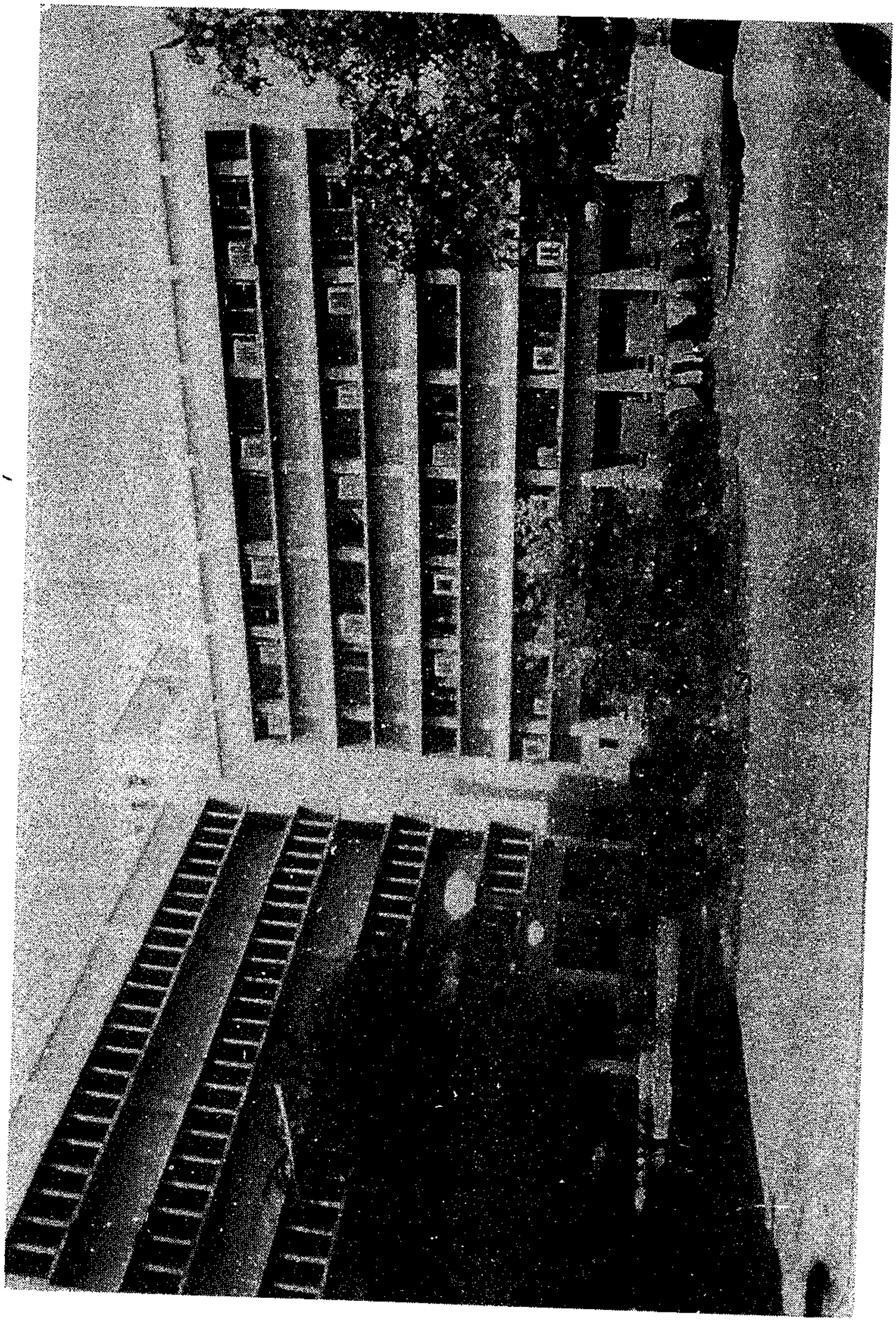


Fig. 23.2. The Offices of Ds.A, CWM I & II

HIGHLIGHTS

THE SUPPLEMENTARY AUDIT REPORT 1973-74*

The Report contained the first ever review on Road Development in the country as a whole during the 4th Plan. There were 3 sections - the planning perspectives and organisation for road development in the 4th Plan (16 paras), implementation and execution of centrally financed road development programme (16 paras) and state roads (3 paras) - and paras in each section were arranged topic-wise. Reviews on road development in each State were also included in the Supplementary Reports of state Governments which were placed before the State Legislatures.

The Report brought out that the Central Government had assumed responsibility for development of National Highways in April 1947, when there were 34 highways with a total length of 21440 kms. and that by 1974, there were 55 highways - 10 of which had exceeded 1000 kms. each. The deficiencies in highways were inventorised and the programme of works on NHS proposed for 4th Plan was specified. The development programme in the Central section had envisaged an out lay of Rs. 418.14 crores on new schemes and Rs. 60.14 crores on carry-over works. 94 works over a length of 6938 kms. of National Highways (12 in all) had been classified for being taken up on priority basis. The organisation for implementation of the programme, delegation of powers, monitoring and reporting arrangement and various deficiencies in execution were dealt with in the Report. Comments on planning and movement of bitumen, sanctioning of estimates, Central bridge investigation and design organisation for large and technically complicated river crossing, development of engineering expertise for road and bridge work, lack of adequate pre-estimate surveys and investigations, quality control, control over technical aspects of execution and road building machinery were included in the Report. The overall physical achievement, construction of 3000 kms. of highways and 160 bridges and the missing links and shortfall in each state sector were given. The National Highways was an outstanding and probably unique example of Union assets, on a large scale, created and maintained by the States acting as agents of the Union but their relationship produced problems of its own, the solution of which was not easy. They were strengthened to cater to the heavy traffic on the country's roads and how well they served the purpose depended on their correct designing, right construction and proper maintenance and it was worthwhile to spell out the practical implications of the proposition.

* Finalised by Shri G.N. Pathak/G.B. Singh and countersigned by Shri A. Baksi on 28th February, 1976 and presented to Parliament on 22nd March, 1976.

Correct designing was related firstly to the kind, density and weight of traffic moving on them and secondly to the soil and sub-soil characteristics and conditions, and the former was determined from traffic censuses to which was applied a projected growth rate over the next few years, while the latter was determined through soil (as well as sub-soil) investigations, for which purpose appropriate facilities were required. A number of failures to do such investigations, noticed during test check, were mentioned in the Report, pointing out to the need to examine whether the State Governments had necessary and adequate facilities for these investigations. Quality control of the materials used in construction and close supervision of construction were of critical importance and instances of lack of quality control noticed were mentioned. Laboratory facilities were required for quality control and how far the State Governments had created the necessary facilities for quality control and, where not done, to press them, at appropriate levels, to do so early were investigated.

Use of certain fairly sophisticated machinery, adequate spare parts, trained staff to operate them as well as to maintain and repair them and workshop facilities for their repair and maintenance were essential for building major National Highways, which was launched without these pre-requisites. The need for a concerted drive to remove these important lacunae early was paramount. Many examples of apparent lack of adequate field supervision of construction were contained in the Report. In view of the care needed in execution of the National Highways works, which were being put to increasingly exacting use, their constructions called for closer field supervision by engineering staff and officers than that needed for other roads in the country and there was room for improvement in this important matter. The share of resources being allocated to maintenance and repairs of National Highways was to be somewhat larger than what it was.

RESULTS OF TEST CHECK

Results of test check of expenditure on National Highways numbers 2, 7, 8, 8-A and 8-B, Major bridges - Ganga bridges at Allahabad on National Highway 2 and on NH 25 at Kanpur, Pamban Strait bridge on NH 49 in Tamil Nadu, Krishna bridge on NH 13 at Almathu, Telmuchu bridge over river Damodar on NH 32 in Bihar, Baruch river bridge on Shilling - Agartala road, Chambal bridge near Dholpur on NH 3 and certain special roads were included in the second section. Principle of allocation and pattern of Central assistance to States was modified during the fourth plan and the estimated outlay was Rs. 535.92 crores, of which 50% constituted Central assistance. A brief resume of some features in respect of expenditure by State Governments on their road programme and comments on selection and execution of works were given in the section. The Report was a highly academic thesis, interspersed with list of audit findings leading to various suggestions, conclusions, relevant to the conception, planning, implementation and reporting with a view to obtain better results in shorter time lead with lesser cost by a unique and combined organisation involving Union and State Governments.

PAC REPORT

The PAC which examined* the review in detail, submitted one of its biggest reports with 10 chapters in 379 pages and made 154 recommendations - 5 recommendations were on historical evolution of the various road plans, 28 on planning perspective (paras 1, 2, 4, 15 and 29 of AR), 36 on implementation of Road Development Programmes (paras 3, 6, 21 and paras on payment of agency charges, proposal regarding Central Construction Corporation and Central Road Fund of the AR), 11 on sanction of estimates, 5 on development of engineering expertise (Para 9 of AR), 13 on control over execution (Para 12 of AR), 25 on road building machinery (paras 13 and 14 of AR), 6 on planning and procurement of bitumen, 24 on central road projects (Paras 30, 31, 32 of AR) and 1 on state roads (Paras 33, 34 and 35 of the AR). The major recommendations were that a comprehensive plan should be drawn up in which the State Governments should participate and get involved; certain guidelines should exist for fixing priorities of allocation, highest priority being accorded to incomplete roads and bridges; there should be no change of the priorities once fixed and works provided for in the five year and annual plans should only be taken up.

According to the PAC, monitoring the implementation of a programme was an essential part of the planning. Government should finalise the proposals with a schedule of priorities depending upon the importance of each road and availability of resources. Construction of missing links was not given the importance it deserved and efforts should be made to complete them without further loss of time. A time-bound programme with proper phasing of works should be done in depth to make all-out efforts to complete the works by settling the outstanding issues expeditiously. In regard to the missing bridges the committee felt that the works were neglected at the beginning and were now being pursued at higher level, after the receipt of the audit para and desired the Ministry to draw up, in consultation with the State Chief Engineers, a phased programme, stage-wise, for construction of the bridges and ensure their completion. Specific cases mentioned in the audit para

* 18th Report (1987-88) Sixth LS, presented on 22nd December, 1977.

should be looked into and the remaining works completed as early as possible so as to avoid any spill-over from the Fifth Plan. The annual programme of the Plan should be so tailored and phased to give high priority to urgently needed items of works and should be completed in time. A detailed study of availability and capability of resources of men, material and equipment should be made sufficiently in advance so as to facilitate formulation of realistic plan both in respect of costs of works and availability of resources. Cost of construction should be kept under constant review both by the Director General (Roads) and the State Highways authorities so as to take concerted measures to effect economies without detriment to the quality of works. The desirability of setting-up a single authority for National Highways, a separate organisation under it for estimating, financing and accounting of the projects, more careful scrutiny of contracts, careful examination of estimates at all stages so as to avoid repeated revisions subsequently, timely completion of preliminary and consequent steps in sequence after decisions on projects were taken, were the other recommendations. The Ministry of Shipping and Transport was to collect and collate all instructions and circulars issued and bring them out in the form of a compendium for use of all Highway authorities.

Investigation, planning, and execution of the construction and maintenance works for the National Highways and other Centrally sponsored roadways schemes in the most efficient and economical manner formed the core of the work and the officers and staff were to be of the highest calibre with minimum numbers. The Committee suggested that the Roads Wing might evolve a model set-up for handling the construction and maintenance of National Highways and other Central road projects in the States and Union Territories more efficiently and economically. Progress reports were to be sent regularly and in time and the monitoring aspect was to be improved by devising a proforma to help feed-back of the essential information about progress made to the Head Office of the Roads Wing to enable it to take remedial measures without loss of time. A technical team was to look into whether the grants given during the 5th Plan for the maintenance and repair of the National Highways had been sufficient to meet the requirements and in the light of their study, the Government was to refix norms in consultation with the State authorities in order to obviate any feeling or ground that these were fixed 'arbitrarily' and the technical team was to be directed to go into the question of the wide variations in the State-wise expenditure on maintenance and repair of National Highways particularly, in three States, where the contraction had taken place. Wide variations in the percentage of expenditure either on account of overall establishment charges or tools and plants were to be looked into in depth by a team of technical experts including a representative of the Cost Accounts Branch so that the agency charges were fixed on a more scientific basis and this was to be done on a priority basis. The technical team was to devise and recommend such institutional arrangement for reimbursement of agency charges which would provide an inbuilt check on timely completion of the works and ensure that these conformed to quality specifications. Coordination in construction between National Buildings Construction Corporation, National Projects Construction Corporation, Border Roads Organisation etc. and the State Corporations was to be ensured and the Government was to keep a close watch on the functioning from the very beginning to ensure that they developed on the right lines, so as to subserve the objectives for which they were conceived. Allocations were to be made on realistic basis and the approved schemes were to be progressed appropriately in accordance with funds allocated to obviate shortfalls and excesses. Special attention was to be paid to projects for promoting inter-State road communication facilities helping in the opening of new areas, providing funds for schemes of research and investigation etc. In regard to the working of the Road Fund, the avoidance of diversion of funds, issue of clear guidelines/criteria for selection of projects, completion of projects financed through the fund, and informing the States from time to time of the amount outstanding to their credit to facilitate the planning of works and expenditure thereon were recommended. The Government was to review comprehensively the working of the Fund in the light of its revised objectives and inform Parliament of the results of such a review before the commencement of the Sixth Plan.

In view of the agency charges paid to the State authorities they were to be persuaded to have adequate technical organisation to prepare the project estimates. Regional offices were to maintain close liaison with the State authorities in order to see that the investigations, surveys and project reports were prepared *ab initio* on sound and acceptable lines to facilitate the work of processing the sanctions and execution of jobs. The model set-up was to be reviewed in the light of experience gathered, so as to commend an arrangement which would find acceptance by the remaining States. Suitable delegation of powers was to be made to facilitate speedy execution of work and the existing financial powers were to be reviewed *de növo* so as to rationalise the issue of sanctions to the project estimates by various competent authorities. The Roads Wing was to make all out efforts to bring about standardisation and uniformity of practice, so as to cut down delays to the minimum at various stages of execution of works.

In regard to the construction of bridges the need for expert organisation for designing larger and more complex bridges came up during evidence. As certain States possessed the necessary expertise this was required to be tapped for arriving at a common decision acceptable to all. The functioning of the bridges construction corporation of some States was to be studied in this connection. Suitable institutional arrangement was to be devised to facilitate a two-way deputation of officers in the overall interest and exchanging the officers at various levels between the headquarters and the field so as to make for continuous flow of experience from the field into the apex body and vice versa.

There was to be a separate quality control cell in each State adequately staffed and properly equipped and charged with the overall responsibility of coordinating the quality control measures within the State and whatever knowledge came to their possession was to be passed on by the construction agencies for application in the field. There was to be close and integrated relationship between the research laboratory and the Quality Control Units, so as to ensure complete flow of guidance from the laboratory and feed-back by the Quality Control Units, based on field experience. The norms laid down in the hand-book on quality control published by the Indian Road Congress in 1973 were to be adhered to by the field units. The model NIT document was to be finalised for early implementation.

The annual reports were to mention all the aspects and equipment purchased for road building, its allocation State-wise as also utilisation, deficiencies noticed and the measures taken to rectify the position. Identification of unutilised machineries, wholly or partly, the rationale for their initial purchase and fixation of responsibility for such purchases was suggested. The workshop facilities for maintenance of machineries were to be reviewed and augmented. The regional offices and liaison offices at State Head quarters were to ensure that utilisation programme were properly prepared, furnished in time and that the directions were issued and got implemented in letter and spirit. Quarterly performance report was to be received regularly and in time and the Index Cards were to be kept up-to-date. Forms prescribed for reporting, utilisation, physical verification etc. of the machinery in the States were to be simplified and stream lined for effective results. Indigenous manufacture of machinery was to be explored with a view to attain self-reliance. The irregularities pointed out by Audit regarding the upkeep and utilisation of various items of machinery and equipment in the States were to be looked into by a Committee of officers drawn from different Ministries and States and necessary action taken. The pending recommendations of the Road Building Machinery Committee, were to be implemented.

The Oil Coordination Committee was to study the problem of bulk supply of bitumen in depth and take effective measures to implement the schemes without loss of further time. Marketability by oil companies of bitumen in bulk was to be encouraged. The production of bitumen was to be stepped up both for export and internal use. Specificaction on various purchases in the States was recommended. The work on construction of strategic roads was to be entrusted to Border Roads Construction Corporation right from the inception to improve performance.

During the course of examination of the Report, the Committee was surprised to learn that the representatives of both of the Planning Commission and the Ministry of Shipping and Transport were not aware of the CAG's Reports on Road Development and desired that these should receive sustained attention for better planning and more efficient implementation of the road development programme.

The ATR* indicated that 58 conclusions and recommendations were accepted by Government; 70 were not pursued by the Committee in view of the replies received from Government; 19 were reiterated by the Committee since replies of Government were not found acceptable and in 7 cases, only interim replies were received.

CASH COMPENSATORY SUPPORT FOR EXPORTS

Some of the important paras which appeared in the Audit Reports on this subject were as under :

(i) Rates of cash assistance on certain export projects were fixed on *ad hoc* basis without any scientific study of cost of f.o.b. realisations. Cost studies conducted later on independently by Audit showed that there was profit in exports and the payments of cash assistance were not justified. Rates of cash assistance based on unrepresentative/unreliable data were found to have been fixed on higher side and had, therefore, to be reduced subsequently (para 1 of 1978-79, paras 1, 2 of 1980-81, paras 27, 29 of 1981-82 and para 15 of 1982-83 Reports).

(ii) Cash assistance rates allowed retrospectively on certain products had not helped promotion of exports, which defeated the basic objective of cash assistance since the exports had already taken place. (Paras 28, 29 of 1971-72 and Para 8 of 1983-84 Reports).

(iii) Non-observance of the cut-off point formula - under which cash assistance was to be restricted to 25 per cent of f.o.b. price after deducting the import replenishment as admissible under the relevant

* 113th Report (1978-79) Sixth Lok Sabha, presented on 19th March, 1979.

import policy - resulted in the excess payment of cash assistance. (Para 28, 29 of 1981-82 and Para 16 of 1982-83 Reports).

(iv) Avoidable, unjustified, irregular and excess payment of cash assistance on various export products occurred due to injudicious decisions and non-observance of the instructions issued on the subject (para 8 of 1984-85 and paras 10, 11, 12 of 1985-86 Reports).

(v) Unrestricted export of a product, contrary to the advice of the Ministry of Agriculture, was allowed despite their adverse effect on the poultry and dairy development programme of the country (para 1 of 1978-79 Report).

(vi) Absence of any uniformity in fixing export obligations against import licences and non-fulfilment of export obligations in many cases. Detailed scrutiny of cash compensatory support claims under the simplified payment scheme had not been undertaken. (Para 3 of 1979-80 Report).

(vii) Even after exports, foreign exchange had not been realised in many cases and the amount involved was considerable which necessitated recovery of cash assistance and adjustment of import replenishment allowed to the exporters (Para 3 of 1979-80 Report).

(viii) To get cash assistance exaggerated figures of targets of exports of foreign exchange earnings were furnished (Para 1 of 1980-81 Report).

(ix) Non-fixation of minimum export price for export of traditional items which resulted in competition among the country's exporters to quote lower prices than expected. Cash assistance on such items could not be viewed as justified (Para 27 of 1981-82 and para 12 of 1985-86 Report).

(x) Cash assistance could not improve capacity utilisation of the industry. Decline in exports even after payment of cash assistance was detected, which defeated the objective of cash assistance to boost exports (Paras 9, 10 of 1983-84 Report).

(xi) Sub-standard products were found exported due to absence of quality control and pre-shipment inspection (Para 27 of 1981-82 and 15 of 1982-83 Reports).

(xii) Cash assistance was allowed on products, which were not of export potential (Para 9 of 1983-84 Report).

(xiii) Excess import replenishment was allowed on certain export products. (Para 4 of 1976-77 and para 16 of 1982-83 Reports).

(xiv) Payment of cash assistance to exporters who had not achieved the targets fixed (Para 26 of Report 1977-78).

(xv) Cases of exports below floor prices which were not entitled to cash assistance were pointed out (Para 27 of 1977-78 Report).

Paragraphs relating to various items of exports on which cash compensatory support was paid by the Ministry of Commerce evoked considerable interest of the PAC and the defects pointed out therein were viewed seriously by them. Some of their observations and specific recommendations are given below:

(i) "The basic defect in the system of granting cash assistance seems to be that there is no effective machinery available with Government to concurrently evaluate and review the market trends, the f.o.b. realisations and the impact of various kinds of assistance given for export promotion so that necessary changes and adjustments could be effected promptly as soon as wide fluctuations came to notice. Consequently, the assistance given from time to time has had little or no relevance to the realities of the situation at a given point of time and more often than not, such assistance proved to have been not only a drag on the exchequer but in the result infructuous. The Committee, therefore, desire that a suitable machinery for a concurrent review of the relevant factors should be devised so as to ensure that the trade does not derive undue benefits from the fact that all the relevant information may not be readily available to the administrative Ministry concerned". (174th Report VI Lok Sabha).

(ii) "The Committee would urge that one of the approved criteria for determining the Cash compensatory support should be broad cost analysis. This is essential to curb *ad hocism* and prevent malpractices". (152nd Report VII Lok Sabha).

(iii) "The Committee recommend that Government should take steps to set up an internal audit organisation in Joint Chief Controller of Imports and Exports offices for audit of cash assistance transactions as also other allied functions as may be assigned to it". (111th Report VII Lok Sabha).

(iv) "Inadequacy of the Government machinery to evaluate effectively the f.o.b. realisations and other cost data and putting an almost exclusive reliance on the data furnished by the export promotion councils, has been a glaring shortcoming in the management of the scheme of cash compensatory support" (CCS) (152nd Report VII Lok Sabha).

As a result of the recommendations made by the Committee on the audit paras, the Ministry of Commerce created a CCS Cell in the Ministry towards the close of 1983-84. The tasks assigned to this Cell, which was manned by qualified Cost Accountants, were undertaking of special studies in connection with evolving of/compliance with norms for submission of data relating to cash assistance, collection of data in regard to trend and volume of exports in respect of selected cash assisted items, analysis and interpretation of data so collected, analytical study to determine how far cash assistance had actually contributed to the increase in exports of the connected items and the quantum of foreign exchange inflow and to concurrently review and evaluate market trends, f.o.b. realisations and impact of various kinds of assistance. A computer-based management information system of monitoring disbursement of cash assistance under important groups and sub-groups was also introduced by Government from 1st July, 1985 with Chief Controller of Imports and Exports (CCIE) functioning as Central information collection centre for the purpose of study and processing information received from the port licensing authorities.

EXAMINATION OF PARAS BY PAC

While all the paras included in the Reports upto 1970-71 were examined by the Public Accounts Committee (PAC), a system of selective examination of paras was adopted from 1971-72 onwards. Out of a total of 384 paras and 62 reviews included in the Audit Reports for the years 1971-72 to 1987-88, 49 paras and 26 reviews were examined by the Committee orally. 35 original reports incorporating 979 recommendations were presented by the Committee on 49 selected paras. Action taken reports on 32 of the 35 Reports indicated that 466 recommendations were accepted by Government; 206 were not pursued by the Committee in view of the replies; Government's replies in the case of 144 recommendations were not acceptable to the committee who reiterated their recommendations and in respect of 133 recommendations only interim replies were received. Action taken Reports on three original reports containing 30 recommendations relating to Audit Reports 1981-82, 1983-84 and 1985-86 were awaited in March 1989. Of the 26 reviews selected, discussions on 23 were completed and were in progress in the remaining 3 cases relating to the Audit Report 1984-85. The Committee made 806 recommendations after examination of 23 reviews. Action taken reports on 140 recommendations relating to Audit Reports 1983-84 and 1984-85 were awaited. Analysis of the action taken reports finalised indicated that 352 recommendations were accepted by Government, 163 were not pursued by the Committee after considering the replies of Government, in 88 cases the replies of Government were not accepted by the Committee who reiterated the position and in respect of 63 recommendations only interim replies were furnished by Government.

In respect of the paras/reviews selected by the PAC for oral evidence, the administrative Ministries concerned sent notes to the Lok Sabha Secretariat on action taken or proposed to be taken by them on the recommendations made by the Committee in their Reports. Notes on points on which further information was required by the Committee were also sent. The draft notes intended to be sent were vetted by the Director of Audit with reference to the relevant original files and papers based on which the notes were drafted by the Ministries. Notes on the remedial/corrective action taken by the Ministries on the points included in the paragraphs not selected for detailed examination by the Committee were required to be furnished within a period of six months. The Ministry of Finance (Deptt. of Expenditure) acted as the coordinating agency and collected all the remedial/corrective action taken notes, duly vetted by Audit, from the various Ministries and forwarded them to the Lok Sabha Secretariat in a consolidated form in batches. The responsibility for timely submission of the remedial/ corrective action taken notes rested with the Ministries. Remedial/ corrective action taken notes on 8 of the 46 paras not selected for detailed examination in the Reports 1985-86 and 1986-87 were awaited in May 1989.

DANDAKARANYA DEVELOPMENT PROJECT*

The project was taken up by the Government of India in 1958 to facilitate the speedy resettlement of displaced persons from East Pakistan and the integrated development of the Dandakaranya area involved an expenditure of Rs. 23.80 crores upto June 1965, on reclaiming 1.05 lakh acres of land, resettlement of 9020 families, construction of 7627 houses and other ancillary works required for the development of the area. Rs. 12,033 per family were spent as against Rs. 6090 envisaged by the Ministry of Finance in November 1959. The Truck operations resulted in loss of Rs. 7.80 lakhs during 1963-64 and the cumulative loss was Rs. 28.76 lakhs due to increases in staff, cost of material, maintenance over-heads, and delay in revision of hire charges and arrears in recovery of hire charges. Consumer Goods Scheme for providing retail supply of paddy and other consumer goods to settlers to be run on a "no profit no loss" basis had incurred a loss of Rs. 6 lakhs by March 1964 due to sale of paddy and other stores at prices less than procurement cost and loss of stores due to long storage. The fisheries scheme developed as a part of the Zonal Mixed Farms to develop pisciculture and expected to earn within five years after meeting total recurring and non-recurring expenditure had incurred loss of Rs. 4 lakhs due to fixation of low sale price and deployment of the staff for fishery

* Para 65 of AR 1966 signed by Shri R.K. Khanna and countersigned by Shri S. Ranganathan on 21st February, 1966 and presented to Parliament on 15th March, 1966.

extension and research work. The proforma accounts of the Forest Organisation Scheme for June 1959 to March 1964 showed a loss of Rs. 9.59 lakhs and there were heavy sundry debtors who had not confirmed the debts and disputes regarding supplies had also arisen. Various Industrial Schemes taken up for the benefit of the displaced persons in various trades to supplement their income resulted in a loss of Rs. 6.22 lakhs by March 1964 and the working expenses contributed to the major portion of the loss. Rs. 37.63 lakhs in 406 cases were outstanding under temporary advances for long periods although the rules required payment within one month. Various deficiencies in maintenance of stock accounts were noticed, like omission to obtain certificates before making payments, taking into account the receipts without verifying their actual receipts, non-review of abstracts of stock receipts, non-reconciliation of accounts and non-closure of stock register. Cases of infructuous expenditure in the movement of tractors (Rs. 1.74 lakhs), working of machinery in double shift, which yielded 64 per cent of the potential hours and 27 per cent of the targeted quantity of earth work to be done (Rs. 1.10 lakhs), overpayments in the purchase of spare parts - Rs. 0.34 lakh, the avoidable extra expenditure - Rs. 1.02 lakhs and uneconomical purchase of tractors - Rs. 4.62 lakhs were the other points in the review.

The Public Accounts Committee made* 13 recommendations. The Dandakaranya Development Authority should obtain *ex-post-facto* sanction to regularise the payment of subsidy under the Consumer Goods Scheme. A proper assessment of the working of the Forest Organisation Scheme should be undertaken and steps taken to avoid such losses in future. The discrepancies in supplies and acceptance of timber accounts should be reconciled and all efforts made to realise the dues from the Departments which had supplied goods. While expressing regret over the loss suffered on Industrial Schemes undertaken by the Authority to train the displaced persons it was indicated that no care was taken to utilise the seeds immediately after purchase, which resulted in their deterioration and consequential loss. All efforts should be made to adjust the outstanding amounts of temporary advances paid to departmental officers and such accumulation should be avoided in future. According to the Committee, coordination between the project authorities and the State Government could have avoided infructuous expenditure of Rs. 1.74 lakhs. The Project authorities should work in coordination with the State Government and finalise their programmes on more realistic basis. The Committee took a serious view of the lapses and irregularities committed in the purchase of spare parts and desired

* 62nd Report (1966-67). Third LS presented on 25th March, 1966.

action to be taken against those who were found guilty, besides recovering the excess amount paid for the spare parts. Extra expenditure on payment of electric charges to Orissa State Electricity Board could have been avoided, if only proper care was taken in finalising the contract. The Committee viewed with great concern the irregularities connected with the purchase of tractors and trailors and did not find any justification for the purchase of tractors, when their performance was doubtful in the trials made by the Project authorities, and there were adverse reports of Bhilai Steel Project, and recommended investigation of the case in detail for fixing responsibility for various irregularities. Three recommendations were accepted* by the Government; 7 recommendations for which replies of Government were received were not acceptable to the Committee and 3 recommendations required final replies of Government.

THE TEA PLANTATION FINANCE SCHEME**

For advancing loans to the Tea estates for replanting, replacement and/or extension of old tea areas, sanctioned by the Government of India in June 1962 and entrusted to the Tea Board for execution provided for 5 crores to be placed at the disposal of the Tea Board to be utilised as a revolving fund for the purpose. The drawals by the Board were treated as loans granted on 1st October of that year, bearing 5 per cent interest (raised to 5.5 per cent with effect from 1st April, 1965) repayable after 15 years. The Board drew Rs. 151.25 lakhs till the end of October 1965. The loan assistance was admissible to the tea estates at Rs. 7,400 per hectare for plain gardens and Rs. 9,900 per hectare for hill gardens to be drawn in 4 and 5 instalments respectively. The loanee estates were required to furnish, *inter alia*, a bank guarantee before the release of the first instalment of the loan, and a mortgage deed before the release of the second instalment. Rs. 153.61 lakhs was disbursed by the Board from the inception of the scheme to the end of October, 1965 as first instalment in 28 cases amounting to Rs. 21.89 lakhs and second instalment in 53 cases amounting to Rs. 131.72 lakhs. Of the amount of Rs. 21.89 lakhs released as the first instalment, mortgage deed had been executed in respect of one case only, involving an amount of Rs. 0.75 lakh; of the rest, personal guarantees from the managing Directors/ Agents of the borrowing estates and other private parties had been obtained in 17 cases involving an amount of Rs. 14.25 lakhs, instead of

* 66th Report (1968-69) Fourth LS presented on 28th April, 1969.

** Para 139 of AR 1966 signed by Shri R.K. Khanna and countersigned by Shri S. Ranganathan on 21st February, 1966 and presented to Parliament on 15th March, 1966.

bank guarantees. In 10 cases involving an amount of Rs. 6.89 lakhs, bank guarantees were obtained. No mortgage deed had been executed in 42 cases involving an amount of Rs. 100.56 lakhs.

Although the second instalment of the loan was to be paid 12 months after the date of payment of first instalment, in the case of one estate, the second instalment amounting to Rs. 13,156 was released in March 1964, only nine months after the first instalment amounting to Rs. 25,300 had been paid in June 1963 without even verifying whether the planting had been carried out satisfactorily as required under the scheme. In three cases, the loanee estates did not demand the second instalment within the prescribed limit of 24 months from the date of drawal of the first instalment, which attracted 1 per cent commitment charges under the scheme. Rs. 2.75 lakhs were sanctioned by the Board to a tea estate, on 26th April, 1963 (Rs. 1.48 lakhs) and on 1st September, 1964 (Rs. 1.27 lakhs) for the extension of 20 hectares and 17.16 hec tares respectively; the first loan was disbursed on the basis of the value of fixed assets shown in the audited balance sheet as at the end of December 1962, and the latter, on the basis of a valuation certificate from a firm of tea brokers. The audited balance sheet as on 31st March, 1964, however, showed the value of fixed assets at Rs. 4.01 lakhs only; on this basis, the estate was eligible for a loan not exceeding Rs. 2 lakhs as against Rs. 2.75 lakhs sanctioned by the Board. Out of the latter, instalments amounting to Rs. 2.10 lakhs were drawn by the estate during the period from June 1963 to May 1965. An excess assistance of Rs. 0.75 lakh was, thus, sanctioned by the Board, on the basis of which excess assistance of Rs. 0.57 lakh was actually released to the estate. The loan instalments were released on the basis of personal guarantees of Rs. 1.64 lakhs and Rs. 0.46 lakh furnished by a chartered accountant and another private individual respectively instead either of a bank guarantee or a mortgage deed.

Under the scheme, the loan assistance was admissible to those tea gardens only which were not in a position to undertake extension of plantation out of their own resources. In March, 1963 the Board sanctioned a loan of Rs. 5.99 lakhs to an estate carrying out a new planting on 80.93 hectares, in a phased manner. In March 1963 and 1964, a total amount of Rs. 1.12 lakhs being the amount of the first instalment was released to the estate for carrying out the first phase involving 30.35 hectares. In August 1964, the estate reported to the Board that they had carried out extension over 16.79 hectares (including 11.78 hectares carried out in 1962) and replanting on uprooted areas over 2.78 hectares, and it was not possible for them to undertake any further extension owing to the land being low lying. As the sanction to the loan did not cover planting done by the estate in 1962, the payment of Rs. 1.12 lakhs resulted in an excess release of Rs. 0.44 lakh. In February 1965, the estate requested that the shortfall of 10.78 hectares in the planting of 30.35 hectares for which the loan instalment had been released, might be adjusted against the planting of 12.42 hectares carried out by them in October 1961 from their own resources, which was turned down by the Board on 29th January, 1966 and the estate was advised to select alternative sites to complete the sanctioned programme. In the meantime, loan funds, amounting to Rs. 0.40 lakh was retained by the estate.

A loan of Rs. 3.36 lakhs was sanctioned by the Tea Board in November 1962 to an estate for replanting 33.93 hectares, on the basis of the value of the fixed assets shown in the balance sheet. The first instalment of the loan amounting to Rs. 1.68 lakhs was released on 20th February, 1964 and on 9th March, 1964. The bankers who had consented to a *pari passu* charge, withdrew the same on the ground that the dealings of the estates were not satisfactory and inspection of the tea estate by the Plantation Officer of the Board in June 1965 showed that no new planting had been done by the estate and that the garden was in a very poor condition. A civil suit for the recovery of an amount of Rs. 1.68 lakhs plus interest at 7 per cent per annum was consequently filed against the estate in July 1965 in the Darjeeling court, and a decree for payment of an amount of Rs. 1.83 lakhs was secured in November 1965 against the estate and the private individuals who had stood guarantee for the loan, which was yet to be executed (December 1965). The estate was reported to have a liability of Rs. 12.18 lakhs as in June 1965. An expenditure of Rs. 5,964 was incurred by the Tea Board in connection with the civil suit. The accounting procedure of the scheme provides for internal audit of the accounts of the scheme by the Board's Finance Officer but no internal audit was conducted upto October 1965.

The PAC* regretted that a revolving fund of such a huge amount (Rs. 5 crores) was placed at the disposal of the Tea Board on rough basis without estimating the amount required to advance loans to the tea estates for replanting, replacement and/or extension of old tea areas and felt that some targets in respect of these item, *viz.* replanting, replacement and/or extension of old tea areas should have been fixed. They were surprised to know that the Tea Board has received only one application for irrigation loans against a crore of rupees earmarked by the Board and the scheme was not based on a full and realistic assessment. The Committee hoped that in future Government would not sanction huge amounts on *ad hoc* basis and money would be given to

* 68th report (1966-67) 3rd Lok Sabha.

institutions etc., only, after satisfying their capacity to utilise such amounts and took exception to the procedure adopted by the tea Board in releasing the first instalment of loans to the Tea Estates on the basis of personal guarantees from the Managing Directors/Agents, instead of on the basis of bank guarantees, as prescribed in the scheme and without obtaining prior approval of Government and hoped that in future Tea Board would not act in this irregular manner. Efforts should be made to get mortgage deeds executed in the remaining cases. Non-observance of rules relating to the schemes was adversely commented upon and desired that such irregular practices should be stopped immediately. It was an unhealthy practice to deviate from rules and then to approach Government to regularise it. The proper course for the Tea Board would have been to get the rules first amended if necessary and then act accordingly. The existing arrangements for taking guarantees at the time of releasing loan instalments were unsatisfactory. The Committee desired to be informed of the revised arrangements and furnishing of adequate security for the entire amount of Rs. 1.64 lakhs by the Estate. The Action Taken Report of the PAC** indicated that the recommendations of the Committee were accepted by Government.

THE SUPPLEMENTARY REPORT 1975-76@

The Report contained 16 paras with 22 sub-paras on 169 pages in five sections, and included important points noticed in studies undertaken in audit of 20 Irrigation Projects in different parts of the country, of which 12 were large projects, each with an irrigation potential of not less than 50,000 hectares. The reaction of Department of Irrigation was that irrigation was a State subject and the Central Government's role was purely advisory and the proper forum for discussion would be the PACs of the Legislatures of the States and no specific replies were furnished to the points raised in the Report. The Department of Agriculture furnished their comments on the points relating to the command area development programme and soil conservation schemes, which were incorporated in the Report. Audit findings on the selected projects in the States were included in the Supplementary Audit Reports of the State Governments, which were examined by the PACs. These are dealt with in relevant chapters in later volumes.

Scope and Content : The total area to be irrigated by the 20 Irrigation Projects aggregated to 6043 hectares, against the potential of 20,900

** PAC 1968-69, 33rd report 4th Lok Sabha.

@ Finalised by Shri K.P. Rangaswamy/Shri R.C. Suri, countersigned by Shri A. Baksi on 9th December, 1977 and presented to Parliament on 23th December, 1977.

thousand hectares at the end of 1973-74, on which Government of India had invested Rs. 723 crores, as loans and other kinds of assistance for specific schemes. The past studies by several bodies, both at all-India level as well as the State level, mainly focussed attention on broad perspectives of the problems of underutilisation of irrigation potential created, which have identified a number of factors found to have a bearing on such underutilisation, as well as types of remedial measures which could reduce the lag in utilisation and their findings and recommendations were of general applicability, while the audit studies were conducted in the context of the specific conditions obtaining in the selected projects in the field. The studies broadly covered the extent of area irrigated in different crop seasons as compared to Plans in the project reports, factors specifically relevant to the utilisation of irrigation potential in them with particular reference to the parameters governing them, implementation of the centrally-sponsored command area development programme to accelerate the process of utilisation of irrigation potential and improve the efficiency of the utilisation through inter-departmental coordination, the progress made in the execution of the centrally-sponsored schemes of soil conservation in catchment of selected projects and comparison of the revenue and expenses and the return on investment of Government along with the anticipated return.

Results : On these 12 projects Rs. 882.86 crores were spent upto March 1976, of which the loan given by the Government of India was Rs. 662.71 crores. Rs. 212.17 crores were ear-marked for the projects from 1969-70 to 1976-77. Detailed analysis of the area irrigated during the period 1971-72 to 1975-76 in the 12 projects as also the areas planned to be irrigated given in the Report indicated that the area irrigated was about 64% of the area planned to be irrigated and there were significant variations in the level of utilisation in these projects. Factors relating to under-utilisation of irrigation potential in the projects particularly efficiency in water utilisation, drainage, cropping pattern and other factors were covered. In most cases, the depth of water supplied exceeded and the area irrigated per cusec fell short of the project assumptions due to various factors. Some of the factors which affected duty or delta were water courses and field channels, water distribution system, control structures for water regulation, land levelling, maintenance of the canal system and crop pattern. There were no field channels and watercourses in some projects, though there were legislative provisions empowering Government to construct such channels and recover the cost thereof from the cultivators. Distribution in different reaches of the canal was not uniform and in some cases there was no rotational system of distribution of water, while in a few others it was introduced only recently. Beyond the outlet stage, the system of warabandi which enabled cultivators to take water in their turn was not generally prevalent. In many projects, the control structures were not adequate for regulating the flow of water to the extent required for the crops. Gated outlets and regulated discharge through these outlets were absent in most projects resulting in excess drawal of water in upper reaches. In almost all the projects there was little progress in land levelling operations required for efficient application of water. While the extent of loss of water during transmission and distribution was not measured in many projects, where the data were available, the loss was found to be in excess of what was envisaged in the project reports. There was scope for improving the standard of maintenance and repair of the canal systems. In almost all the projects, there was no provision for drainage scheme in the original project reports; the problem of waterlogging and drainage emerged after introduction of irrigation but no timely steps appeared to have been taken in most of the projects. Substantial deviations from the prescribed cropping pattern were noticed even in the southern projects which affected the utilisation significantly.

Centrally sponsored programmes : The Command Area Development Authorities were not vested with the adequate administrative and financial powers and there were frequent changes in the incumbency of the chief executive of the Authority and their status or level was not commensurate with the responsibility assigned. Studies on implementation of the Centrally sponsored schemes relating to soil conservation in catchment areas brought out delay in preparation of master plan, absence of studies of siltation in reservoirs, increase in rate of siltation and lack of effective inter-State coordination in the work relating to the catchment areas which fell in more than one State. Betterment levy was not imposed in most of the projects and, where imposed, the assessment and collection fell short of the amounts initially envisaged. There were variation in water rates from State to State and heavy arrears in collection. In sum, the working expenses could not be met from the revenue receipts, not to mention of the adequate return on investment.

Results of Project studies : Significant points noticed during study of some of the projects detailed in the Report are summarised below :

(i) As against 433 thousand hectares to be irrigated in Bhakra Nangal Project (Punjab), the area irrigated annually during 1971-72 to 1975-76 was about 285 thousand hectares. The performance was uneven in the main canal systems of the project; utilisation of potential was in the range of 58 to 72% in the Bhakra Main Line, 77 to 88% in the Sidhwan Branch, about 50% in the Bist Doab Canal and 60 to 78% in the new area under the Sirhind Canal. Installation of a large number of private tubewells was said to be the main reason for non-utilisation of the irrigation potential. The actual crop pattern varied from what was originally envisaged and a substantial area came under crops like rice and sugarcane, more water-intensive crops, although rice cultivation was not even envisaged in the original crop pattern. Betterment levy collected was Rs. 6.42 crores against Rs. 43.97 crores assumed in the project report and the collection was discontinued from March 1968. Water rates were not revised and varied from one per cent to 2.9 per cent of the gross value of produce per acre. Total receipts did not cover even the working expenses during the period from 1971-72 to 1975-76.

(ii) In Bhakra Nangal (Haryana), 717 thousand hectares were to be irrigated, of which 81 thousand hectares were in restricted perennial zone and 636 thousand hectares in the perennial zone. The utilisation of potential was about 88 per cent in the restricted perennial zone and 790 thousand hectares were actually irrigated in the perennial zone, which was in excess of the area planned to be irrigated. Installation of large number of private tubewells in the restricted perennial zone was said to have affected the utilisation of irrigation potential. The crop pattern varied from that which was envisaged and a substantial area came under relatively more water-intensive crop like rice. Betterment levy collected was Rs. 17.05 crores against Rs. 57.81 crores envisaged in the project report and the receipts did not cover even the working expenses, excluding the interest charges.

(iii) In Bhakra Nangal (Rajasthan), the area irrigated exceeded the area planned to be irrigated (231 thousand hectares) during 1971-72 to 1975-76. Betterment levy amounted to Rs. 18.17 crores which was reassessed as Rs. 3.85 crores and the actual recoveries upto 1975-76 were Rs. 2.41 crores. Receipts just covered the working expenses in three years but in no year the interest charged was fully covered.

(iv) The area irrigated in Chambal (Madhya Pradesh) varied from 43 to 56 per cent of the area planned to be irrigated during the years 1971-72 to 1975-76. The area irrigated during kharif was about 15 thousand hectares, against 82 thousand hectares envisaged in the project report; in rabi, the area irrigated was about 138 thousand hectares, against the envisaged area of 191 thousand hectares. The substantial lag in utilisation during kharif was due to the changes in cropping pattern and the problems connected therewith. Water was not utilised with maximum efficiency during kharif due to delay in land levelling, transmission losses, inadequacy of control structures in the canal, lack of systematic water distribution and lag in construction of water courses and field channels. The works under the Command Area Development Programme were under execution but the progress was slow and the works were expected to be completed by June 1980. 17 per cent of the area was covered by the soil conservation measures but the volume of silt was higher than the project assumptions, which indicated accelerated erosion of the reservoir. No recovery had been made towards betterment contribution and the outstanding balance was Rs. 137.29 lakhs in March 1976. No proforma accounts were prepared to work out precisely the net surplus and deficit on revenue account.

(v) In Chambal (Rajasthan), the area irrigated under kharif was 32 per cent of the area planned to be irrigated in the project report and area irrigated in rabi was 66 per cent of the target. The lag in utilisation in kharif was due to lack of water needed for the paddy crop in the summer months when the Right Main Canal remained closed and the soil not being suitable for cultivation of cotton. The reduction in the irrigable area from 373 thousand hectares to 229 thousand hectares was due to the distribution system not covering the entire area and large areas being under ravines. There was a progressive rise in sub-soil water level in the command area with the commencement of irrigation resulting in waterlogging; one per cent of the cultural command area was reported to be going out of cultivation every year. The Command Area Development Programme, started in July 1974 to provide drainage in 167 thousand hectares, was expected to be completed by 1980. Water was not used with maximum efficiency due to lack of systematic distribution of water, non-levelling of lands, loss of water in transmission and inadequate maintenance. About 800 unauthorised outlets installed by the cultivators were yet to be closed. Warabandi did not cover the entire command and its enforcement was not adequate due to paucity of field staff. The progress of Command Area Development Programme, estimated to cost about Rs. 73 crores, was poor reportedly due, among other things, to time taken to convince the farmers about the utility of the programme. 675 sq. kms. were covered under soil conservation measures at a cost of about Rs. 200 lakhs. Siltation rate was about thrice the rate assumed in the project report of Gandhi Sagar reservoir. No sedimentation studies were conducted for the Rana Pratap Sagar and the Jawahar Sagar reservoirs. As against the estimated betterment charges amounting to Rs. 700 lakhs, the realisation were Rs. 14 lakhs. The receipts did not cover even the working expenses during the five year period ended 1975-76.

(vi) 75% of the area to be irrigated under the Sarda Canal system (Uttar Pradesh) was achieved during 1975-76 and the percentage of utilisation was comparatively less in rabi (69 per cent as against 84 percent in kharif). Non-utilisation of the potential was attributed to availability of water, efficiency in use of water, waterlogging and land levelling. Although the length of the irrigation system increased to 14,838 kms. in 1973-74, sprawling over 17 districts, there was no irrigation at all during the last few years from some of the channels, particularly lower reaches for lack of water. The area irrigated per cusec was less than what was assumed in the project report indicating that water was not used with maximum efficiency. The average transmission losses in Hardoi branch were 79 per cent more than the losses assumed in the kharif and the rabi seasons and the State Government's estimated construction of 24 thousand kms. of field channels for effective use of water having not materialised. A good part of the command area was not covered by field channels and the outlets were ungated and did not facilitate effective control of distribution of water. There was also virtually no system of distribution of water beyond the outlets among cultivators. In the absence of repairs, silt was not cleared in some of the channels and non-clearance of silt affected water supply to the tail-end areas. Large areas of low-lying lands remained waterlogged and uncultivated. The average yield of important crops in the command area was less than the average yield of the State as a whole which was attributed to lack of sufficient and timely supply of water. No law had been enacted for levy of betterment contribution despite the Government decision to impose it. The receipts covered the working expenses excluding the interest charges.

(vii) The average area irrigated in Kosi (Bihar) during the period 1971-72 to 1975-76 was 18 per cent of the area planned to be irrigated (743 thousand hectares). There was no hot-weather crop during the last 3 yeas, although the project envisaged irrigation of 187 thousand hectares in hot weather, as the canal did not run during the required period. The acreage under rabi crops was also poor due to the long period taken up in the cultivation of kharif paddy. The cultural command area was reduced to 440 thousand hectares (from 639 thousand hectares) and the carrying capacity of the canal sections was reduced to 60% due to siltation, despite installation of silt ejector costing Rs. 37 lakhs and incurring substantial expenditure on desilting. Many of the water courses had a designed discharge higher than what was manageable for the cultivators. Structures to regulate flow of water were not provided, which prevented enforcement of any rotational system of distribution of water from the watercourses. No field channels had been put up by Government and land levelling measures were yet to be taken in a large part of the command area. The Kosi Area Development Agency spent Rs. 29 lakhs out of Rs. 82 lakhs upto March 1977 mainly on establishment, survey and demonstration and the unutilised money was kept in a nationalised bank. Betterment contribution had not been levied and the receipts from the project did not cover the working expenses during the five years ending 1975-76.

(viii) In Hirakud (Orissa), there was nearly full utilisation of the irrigation potential during the five years 1971-72 to 1975-76. The area irrigated in kharif was about 153 thousand hectares and in rabi 92 thousand hectares in 1975-76. There were disparities in the intensity of irrigation between different reaches of the canal system and the area irrigated was 75 per cent in the head, 61 per cent in the middle and 50 per cent in the lower reaches of the cultural command area. The envisaged cropping pattern was not realised and the main reason which inhibited the development of diversified crop was the absence of field channels which necessitated irrigation by flooding from field to field. No betterment charges were levied. Receipts from the project covered the maintenance expenses for some years but did not cover the interest charges in any of the five years.

(ix) In Mayurakashi (West Bengal), area irrigated in kharif ranged from about 193 thousand hectares to 207 thousand hectares during 1971-72 to 1975-76 and the area to be irrigated was reduced to 227 thousand hectares in the revised estimate 1967. During rabi, the area irrigated ranged from 3 thousand hectares to 25 thousand hectares, although the project estimate envisaged irrigation of 48 thousand hectares for rabi which was reduced to 20 thousand hectares in 1967. A review committee constituted by the Government found that with the quantity of water available for rabi irrigation, area irrigated could be extended to at least 120 thousand hectares with judicious crop pattern and better water management but Government had not taken a decision on the revised cropping pattern suggested by the Committee. Higher transmission and distribution losses, absence of field channels, presence of temporary and ungated outlets were some of the reasons which affected the efficiency in use of water. The Command Area Development Authority set up in July 1974 was yet to draw the integrated development programme. Betterment levy had not been imposed and receipts did not cover the working expenses in any of the five years.

(x) In Tungabhadra (Karnataka), the Left Bank Main Canal irrigated about 111 thousand hectares during 1975-76 *i.e.* 46 per cent of the area to be irrigated. Under-utilisation was attributed to the nature of cropping pattern, inadequate canal discharge, slow progress in land levelling and waterlogging. Unauthorised irrigation of nearly 39 thousand hectares in 1975-76 in gross violation of the prescribed cropping pattern was noticed and the penalties had not served as a deterrent. A technical committee appointed by the Government recommended adoption of a revised cropping pattern restricting the areas under paddy and sugar cane, introduction of a block system of irrigation with single outlet dealing with a single type of crop, enhancement of penalty for unauthorised irrigation and vigorous drive for collection of penalties. Government's decision on them were awaited. Although the canal was designed for a discharge of 3100 cusecs, the actual discharge was around 2583 cusecs and works were in progress for strengthening and raising the canal bank to be completed in about 5 years at a cost of Rs. 10 crores. Land levelling in the command area was done largely through the land development banks and about 52 per cent of the area proposed to be irrigated was developed. Slow progress in land levelling was due to absentee land-ownership and lack of assured water supply due to limited canal capacity. Measures for removal of weeds and silt, excavation of drains and lining of major distributaries were under consideration of Government. Channels required to be maintained by the farmers were neglected. In Right Bank Low Level Canal, the area irrigated in 1975-76 was 34 thousand hectares *i.e.* 92 per cent of the area to be irrigated. Breaches in the canal, violation of cropping pattern, irrigation during summer months involving heavy transmission losses and non-development of land in certain areas in the command were responsible for non-utilisation of full potential. In the Right Bank High Level Canal, 44 per cent of the area to be irrigated (81 thousand hectares) was irrigated during 1975-76. Under utilisation was attributed to inadequate discharge in the canal and the unsuitable irrigation season. Improvements at a cost of about Rs. 2 crores were expected to be completed by 1978-79. The period of water supply for irrigation from the canal was not suited either for kharif or for rabi season and the irrigation season could not be changed since it was subjected to the storage level in the reservoir. The Command Area Development Authority set up in January 1974 had a full-time Administrator as its Chairman only in April 1977 and the master plan for the command area was yet to be prepared. There were delays in notifying the areas to be benefited from the project and in assessing the notified areas to betterment levy and there were heavy arrears in collection of dues. The receipts from the project did not cover even the working expenses during the period 1970-71 to 1973-74.

(xi) In Tungabhadra (Andhra Pradesh), as against 60 thousand hectares to be irrigated under the command of the Low Level Canal, the area actually irrigated ranged from 64 to 67 per cent during the years 1971-72 to 1975-76. The area irrigated under wet crops was about 20 thousand hectares in 1975-76 against 17 thousand hectares earmarked for the purpose and the irrigated dry crops accounted for only 19 thousand hectares as against 44 thousand hectares. The excess area under wet crops constituted unauthorised irrigation attracting penalties which were mostly waived and did not prove to be a deterrent. The Technical Committee appointed by the State Government suggested cultivation of crops like cotton and chillies from August to November. The decision of the Government on Committee's recommendations was awaited. Area irrigated per cusec of water in rabi was less than what was envisaged in the project report and water was not used with the maximum efficiency. There was no efficient system of distribution of water, beyond the outlets, among the cultivators as necessary regulations had not been formulated. The organisational administrative machinery required for the integrated development of the command area was not set up. Collection of betterment contribution was heavily in arrears, Rs. 186.53 lakhs. The receipts were consistently less than the maintenance expenditure.

(xii) In Nagarjunasagar (Andhra Pradesh), as against the envisaged irrigation potential of 832 thousand hectares to be created by 1968, potential of 427 thousand hectares only was created by 1975-76 and the delay in completion of the dam and the canal system was attributed to paucity of funds. In 1975-76, 302 thousand hectares were proposed to be irrigated under both the Canals which was 68 per cent of the area proposed for irrigation. About 64 thousand hectares were reported to be under unauthorised cultivation in the Jawahar Canal and the penalties were neither recovered nor acted as deterrent. No suitable cropping pattern was finalised for the ayacut, though water was released in the canal in 1967. The Command Area Development Authorities had been set-up and 992 hectares under the Jawahar Canal Command Area and 1751 hectares under the Lal Bahadur Canal Command Area were developed. Betterment levy had not been imposed and no accounts were prepared. In 1973-74 the receipts did not cover the interest charges.

(xiii) In Parambikulam Aliyar (Tamil Nadu), 14 to 41 per cent of the area was irrigated of the area localised (101.5 thousand hectares) and the area thrown open for irrigation every year was substantially less than the area planned to be irrigated as per the project report. The area under wet crops was 24.9 thousand hectares against the planned area of 11.4 thousand hectares, while the area under dry crops was only 16.8 thousand hectares against the targeted area of 61.4 thousand hectares in 1975-76 and the measures taken to curb unauthorised irrigation for wet crops were not effective. Betterment contribution had not been fixed and there was no revision of the rates of water since 1969-70. Receipts from the project did not meet even the maintenance expenses during the four years ending 1974-75.

(xiv) In Kakrapar (Gujarat), the area irrigated during 1975 and 1976 (about 90 thousand hectares) was about one third of what was planned to be irrigated. The cropping pattern was the main problem since the prescribed cropping pattern did not materialise. There were frequent changes in the design standards for determining the canal capacities resulting in some of the branch canals and minors having less and some having more water and some having more discharge capacities than required. The Left and Right Bank Canals needed remodelling to accommodate the revised discharge require-ments - about Rs. 9.22 crores was the estimated cost to repair them. The progress in construction of field channels was poor and the area covered upto June 1976 was 65 per cent of the area required to be covered. Recovery of cost was heavily in arrears - Rs. 253 lakhs. The area irrigated per million cubic feet of water was less than the project assumption, as water was not used with maximum efficiency and capacities of channels were reduced by 10 to 30 per cent for various reasons. The drainage problem was yet to be tackled and the water table recorded a progressive rise after the introduction of irrigation. The Command Area Authority was yet to draw up the programme for development of the command area. No amount had been recovered by way of betterment charges and the receipts from the projects covered the maintenance expenditure only.

(xv) In Purna (Maharashtra), 20 to 31 thousand hectares were irrigated during the five years 1971-72 to 1975-76 as against 62 thousand hectares planned to be irrigated. The actual cropping pattern differed substantially from what was visualised in the project report. There were significant shortfalls in regard to kharif seasonals, long staple cotton, sugarcane and other perennials. The block system of irrigation for the command under which specific crops were to be grown in separate blocks ordered by Government in January 1968 was not introduced at all. Area irrigated per cusec of water was less than what was visualied in the project report indicating that water was not being used with maximum efficiency and the transmission and distribution loss was very heavy - 40 per cent as against 10 per cent assumed in the project report. Command Area Development Authority set up in May 1974 was yet to draw up detailed plans and estimates for modernisation of the irrigation system. Betterment levy was not imposed and receipts from the project did not cover the maintenance expenses in any of the five years.

(xvi) In Girna (Maharashtra), during the period 1971-72 to 1975-76, the area actually irrigated ranged from about 40 per cent to 77 per cent of the area that could have been irrigated with the available water; in 1975-76, the area irrigated was about 23 thousand hectares against the potential of 56 thousand hectares. Area irrigated per cusec of water was less than the project assumption indicating that water was not being used with the maximum efficiency. Transmission loss was higher than the project assumption. Water distribution system did not function satisfactorily. About 16 per cent of the culturable command area remained to be covered by field channels (June 1977). The actual cropping pattern had no relation to the pattern visualised in the project report and there were significant short falls in the areas under cotton, chillies, kharif jowar, bajra and perennials other than sugarcane and banana. Introduction of block system of irrigation was under consideration of the Government. Subsequent construction of three medium projects in the upstream of the Girna dam, were to reduce the availability of water of the Girna project area. The Command Area Development Authority set up in April 1974 was yet to function effectively. No betterment charges were levied and receipts did not cover the working expenses during 1971-72 to 1975-76.

The Report was a masterly, scholastic and academic exercise, studded with results of painful studies and selective audit test-checks conducted by highly specialised practitioners in the sphere of works accounts and audit and the integration and consolidation was done at special high levels specifically constituted under the personal direction and supervision of the CAG himself. It was the first of its kind in the annals of reporting in the Department, which did not get adequate responsiveness from the administration both at the centre and the state levels nor did the media use it for national purpose. However, the Public Accounts Committees, both of the Parliament and State Legislatures, examined them in depth and issued voluminous reports, which bore ample testimony of the utility of such reports to them. But the most shocking and revealing disclosure was made by the Secretary, Planning Commission to the Central PAC, when he confessed their ignorance about the Reports and their contents, which left many lessons for planners, implementators, and evaluators in the Indian set-up.

PAC's OBSERVATIONS

The PAC (1982-83) Seventh Lok Sabha examined the Planning process and monitoring mechanism with reference to Irrigation Projects and made* 54 observations/recommendations. One of the important remarks and recommendation number 53 is reproduced below :

"We have a centralised planning in federal set up. There has, therefore, necessarily to be a coordinated approach by the Centre and

* 141st Report (1982-83) 7th Lok Sabha, presented on 11th April, 1983.

the State Governments to ensure that the National plans are translated into reality and the plan targets are adhered to. In this connection, the role of unitary and independent audit in our federal polity assumes significance. The Committee have in the Introductory chapter of this Report drawn attention to the supplmentary report of the CAG for the year 1975-76, Union Government (Civil) which contains the findings of the studies undertaken by audit of 20 irrigation projects in different parts of the country, of which 12 are large projects each with an irrigation potential of not less than 50,000 hectares. Similar reports were submitted simultaneously to the Governors of the States concerned. It is unfortunate that these reports were not given the attention that they deserved, in the Planning Commission. The Committee expect that suitable institutional arrangements would be made without delay to ensure that the Reports of the CAG containing sectoral reviews of implementation of Plan Programmes and presented to Parliament and State Legislatures are studied by the Planning Commission for taking such steps as may be necessary to remove the deficiencies in the system. Monitoring and appraisal of plans are the integral parts of Planning Process. In future the Planning Commission should, therefore, undertake a detailed appraisal of implementation of plan, *inter alia*, bringing out the physical and financial targets and achievements and reasons for the shortfall in achievements as well as the deficiencies in implementation during the mid-term and after evey five year plan to apply on course corrections and formulate the next plan in the light of these. These detailed appraisal reports should be made public. The Committee's labours would not have been in vain if the problems outlined in this Report and the suggestions given are pursued with the earnestness that the situation demands." These were accepted* by Government and necessary orders were issued.

FOOD FOR WORK PROGRAMME**

The review based on test check of the accounts in 24 States/U.Ts. also included in ARs of the State concerned, brought out that the Governments of Kerala and Uttar Pradesh were supplied foodgrains worth Rs. 68.84 crores during 1977-78 to 1979-80 without making provision for the additional resources in their budgets. Maharasthra did not indicate additionality in respect of various schemes, as required under the programme. Rs. 66.18 lakhs were due to be recovered from

* 81st Report (86-87). 8th LS, presented on 24th April, 1987.

** Para 6 of AR 1979-80 signed by Shri K. C. Das, countersigned by Shri Gian Prakash on 28th February, 1981 and presented to Parliament on 22nd March, 1981.

the Governments of Kerala and Himachal Pradesh. The Government of Bihar was supplied foodgrains worth Rs. 74.16 crores, during two years but records based on which additionality was worked out as well as actual expenditure reported to the Central Government were not shown to Audit. The actual number of mandays of employment generated fell short by 28 per cent in 1977-78 and 47 per cent in 1979-80 and assets created in a number of States were not durable as required under the programme. A number of works beyond the scope of the programme were undertaken by Andhra Pradesh, Assam, Bihar, Gujarat, Rajasthan, Himachal Pradesh, Uttar Pradesh, Karnataka and Nagaland Governments, on which foodgrains were issued even to regular work-charged staff. Foodgrains were issued in Nagaland for works which had been completed even before the introduction of the programme. In Maharashtra, separate statistics of additional employment generated/ assets created under the programme were not maintained. In Andhra Pradesh, during 1978-79 and 1979-80, only 1.33 lakh tonnes of foodgrains (value Rs. 18.56 crores) were issued against their requirement of 1.85 lakh tonnes (value : Rs. 25.83 crores) resulting in 27,463 works out of 1,05,492 remaining incomplete. In Karnataka, 241 works estimated to generate about 1.81 lakh mandays were not taken up due to non-supply of 609 tonnes of foodgrains (value : Rs. 7.65 lakhs) by FCI. Besides, 1.68 lakh tonnes of foodgrains were released after the completion of 103 works. Gunny bags of the value of Rs. 11.02 crores were retained by the distributing agencies like contractors, fair price shops etc. Foodgrains were issued to the labour at prices lower than those fixed by the Central Government for the purpose, which resulted in excess distribution of foodgrains worth Rs. 72.68 lakhs in Rajasthan and Andhra Pradesh and less recovery of Rs. 1.68 lakhs from a contractor in Rajasthan. No account of foodgrains issued to contractors or conveners for distribution to the labour was called for in Rajasthan (3,300 tonnes, value : Rs. 37.95 lakhs), Andhra Pradesh (Rs. 19.52 lakhs) and Kerala (Rs. 3.93 lakhs). In Rajasthan, Assam and Andhra Pradesh foodgrains (83,407.7 tonnes) continued to be issued to contractors even after this practice was stopped by Central Government in March 1979. The Ministry paid Rs. 511.91 crores to ~~the FCI for~~ foodgrains during the three years but the records did not show quantity for which payment was made. In Rajasthan and Kerala, reconciliation was not made of the quantities of foodgrains issued to the implementing agencies and those shown as received by them. In Bihar, foodgrains were in many cases directly taken to the work sites and, in other cases, issue orders of the State Civil Supplies Corporation were directly handed over to contractors for lifting the stores. In Assam and Andhra Pradesh, foodgrains were issued after the completion of works. The various works were chosen by the States from the ongoing projects without going into the basic needs and priorities of the village community. The programme was, thus, continued in effect on an *ad hoc* basis. No arrangements were made for financing the cash component of the works undertaken under the programme with the result that the States could not undertake works for creation of durable assets.

PAC'S OBSERVATIONS

The PAC made* 31 recommendations which covered *inter alia* all the points raised in the audit para. The Committee considered that the Union Government and State Governments must face the problem of developing a cadre of rural managers drawn largely from rural areas for planning and execution of the development schemes for the poor and unemployed sections of the rural community under the National Rural Employment Programme squarely. It had to be ensured that funds were released to the States only after satisfying themselves that shelves of projects were prepared by the agencies concerned with the implementation of the programme. The essential need to activise steering committees both at the State and district levels was emphasised for effective monitoring and for devising on course corrective measures, as may be called for from time to time, by issue of instructions to the States for compliance and for devising in-built checks to ensure that further release of funds or assistance in kind was not permitted unless the requisite progress reports were received in time. An assessment of the value of such works and cost benefit study was to be conducted to ascertain the actual state of such works and the fund requirements to make them durable. Completion of all unfinished works, setting up of a study team of officials and eminent economists to study the scale and magnitude of rural unemployment/underemployment and reporting within a reasonable period of time, setting up a time limit for finalisation of cases of additionality in respect of two States and also in cases where the requisite information was still not forthcoming and adjusting the shortfall against future allocations, strengthening and streamlining of the reporting as well as monitoring system at all levels, examination of various deficiencies in the distribution system, maintenance of accounts etc. in depth by the Ministry of Rural Development to take necessary steps to streamline the system, augmentation of the net work of fair price shops in the rural areas to bring them within the easy reach of the people for minimising malpractices were the other recommendations. The

* 90th Report (1981-82) 7th Lok Sabha, presented on 23rd April, 1982.

committee desired to be apprised of the percentage of foodgrains actually distributed by Panchayats or other Government agencies and the extent of realisation of the sale-proceeds of the empty bags for augmenting the resources under the programme. The ATR* indicated that 27 recommendations were accepted by Government, one was not pursued after receipt of Government reply and, in 3 cases, the replies furnished were of an interim nature.

DROUGHT PRONE AREAS PROGRAMME**

The Review based on a test check of 38 area agencies out of 54 drought prone areas, brought out that 54 drought prone areas (74 districts) in 13 States identified in Fourth Plan (expenditure Rs. 92.27 crores) continued to be categorised as such during the Fifth Plan and actual expenditure incurred thereon during 1974-75 to 1980-81 was Rs. 377.01 crores. Assistance by the Central Government was Rs. 222.90 crores and by the international financial agencies Rs. 44.25 crores. No State Government had sent the audited statement of accounts within 9 months of the close of the financial year to the Ministry, as per the conditions of grants. The control over utilisation of Government assistance was not adequate and agencies had not received the paid vouchers and had acted merely as bodies for advancing funds received from Government. In Uttar Pradesh, Rs. 10.92 lakhs had remained unutilised with the departments on 30th September, 1981. The executing agencies in Bihar had retained Rs. 129.98 lakhs at the end of March 1981. In Madhya Pradesh, against the estimated requirement of Rs. 78.65 lakhs, Rs. 155.42 lakhs were released, of which Rs. 10.06 lakhs were released upto August 1978. In Andhra Pradesh, accounts for Rs. 713.03 lakhs advanced to the departmental officers were not furnished by them. In Andhra Pradesh and Uttar Pradesh, out of 32 incomplete works of the Fourth Plan, 9 only were completed in the Fifth Plan period; 16 were completed in March 1980; the remaining 7 remained incomplete after spending Rs. 49.34 lakhs. In Uttar Pradesh, 46 new works were taken up, inspite of Government of India's directives to defer all the new works till completion of spill-over works of Fourth Plan. In Andhra Pradesh, Orissa and Madhya Pradesh, out of 279 new irrigation works taken up in Fifth Plan, 86 works had remained incomplete after spending Rs. 623.52 lakhs. In 4 States (Andhra Pradesh, Uttar Pradesh, Madhya Pradesh and Maharashtra), the irrigation potentials created during 1974-75 to 1980-81

---

* 173rd Report (1983-84) 7th Lok Sabha presented on 21st December, 1983.

** Para 11 of AR 1980-81 signed by Shri M.M. Mehta and countersigned by Shri Gian Prakash and presented to Parliament on 9th July, 1982.

could not be utilised adequately due to non-development of the command area. Due to faulty designs and substandard works in 6 States (Madhya Pradesh, Uttar Pradesh, Karnataka, Andhra Pradesh, West Bengal and Rajasthan) the intended benefits to the beneficiaries could not accrue from 19 works, even after incurring an expenditure of Rs. 368.11 lakhs. In Haryana, Andhra Pradesh, Maharashtra, Karnataka, Bihar, Uttar Pradesh, Orissa, West Bengal and Rajasthan, DPAP funds to the tune of Rs.13.05 crores were diverted for the execution of 21 unapproved schemes/works. 15 projects were discontinued/abandoned in the States of Uttar Pradesh, Jammu and Kashmir, Haryana, Andhra Pradesh, Karnataka, Orissa, West Bengal and Gujarat resulting in infructuous expenditure of Rs.285.02 lakhs. The achievements in some vital sectors, *viz*. irrigation, forestry and pastures, etc. of the Fifth Plan fell short of the targets by 4.6 per cent to 31.9 per cent; during 1979-80 also, the achievements in some sectors fell short of targets by 23.7 to 95.5 per cent. Evaluation studies (in 30 cases) conducted by the Ministry revealed a number of defects and deficiencies in successful implementation of the programme. These were sent to the State Governments for necessary action, but no further monitoring of the remedial action taken by the State Governments was done. In August 1977, the Central Government suggested to the State Governments to conduct a quick evaluation study of the DPAP projects. In Andhra Pradesh, Maharashtra, Uttar Pradesh and West Bengal, such studies in one or two districts/agencies in each State had been carried out. In Jammu and Kashmir, the study was taken up in June 1981. No such studies had been undertaken in Madhya Pradesh, Orissa, Bihar, Haryana, Gujarat, Karnataka and Rajasthan.

The PAC made* 30 recommendations covering all the points raised in the Audit Report. While expressing unhappiness over heavy shortfalls in the achievements of targets in vital sectors, the Committee suggested that the Ministry of Rural Development should conduct more vigorous monitoring of the programme, take initiative in identifying the weakness therein and ensure effective remedial measures, more frequent meetings with State Governments both at an all India as well as regional level to have a continuous tab on the progress of the programme, vigorous pursuance of the proposal to associate non-officials at an agency level with State Governments, and desired the Ministry of Rural Development to take concrete measures to ensure that the funds allotted for the programme were fully utilised and to remove the bottlenecks for non-utilisation at the earliest. Non-receipt of audited statements even for the Fourth Plan period and also for the period 1974-75 to 1980-81 was found

* 175th Report (1983-84) 7th Lok Sabha presented on 28th February, 1984.

by the Committee to be incurring substantial expenditure did not recur. The monitoring mechanism of the Ministry of Rural Development and the review for follow-up was to be such as would ensure coordinated and well sychronised implementation of projects and establishment of connected facilities to derive optimum benefits in time. It was all the more necessary that such monitoring and evaluation should be done on a priority basis in the case of those States whose performance had not been found encouraging and an exercise in regard to the different projects was to be conducted by a Central agency. The project evaluation organisation might be persuaded to evaluate this programme at an early date and the programme suitably reoriented in the light of the results of the evaluation and urgent remedial measures taken to remove the deficiencies. While expressing surprise at the Ministry's non-awareness of the review included by CAG in the Reports of 13 States pointing out the various deficiencies in the implementation of the programme, the Committee noted the assurance of the Secretary, Ministry of Rural Development that he would have discussions with the State Governments on them and liked to be apprised of the action taken in this regard. The Committee cautioned that the programmes undertaken for the development of drought prone areas should not be allowed to suffer because of the new arrangement of merging DPAP with the DRDA and the transitional problems, by taking timely action.

DISTRICT INDUSTRIES CENTRES PROGRAMME*

The Review brought out that 384 DICs were sanctioned in stages during the last four years covering 394 districts out of a total of 411 districts of the country and Rs. 372.32 lakhs remained unutilised by the States/Union Territories in March 1980 and Rs. 567.50 lakhs in March 1981. Construction of buildings progressed at a slow pace and in 7 States Rs. 206.61 lakhs remained unutilised with the construction agencies, resulting in blockage of funds. Vehicles, office furniture and fixtures intended for the centres had been used for other purposes in certain States. Several key posts of functional managers were not filled up which adversely affected their proper functioning. Revised staffing pattern to be implemented by October 1981 had not been adopted by any of the States/ Union Territories. Adequate administrative and financial powers of the Department of Industry, as well as those under Import Trade Control Policy were not given to DICs as envisaged, to enable them to function

* Para 35 of AR 1981-82 (Union Government-Civil) signed by Shri M.M. Mehta and countersigned by Shri Gian Prakash on 23rd March, 1983 and presented to Parliament on 15th April, 1983

effectively. Action plans did not lay down specific targets to be achieved from year to year and most States/Union Territories had prepared their action plans without proper survey. Scarce raw material requirements could not be met fully and there was also misutilisation of raw material by certain units. They could not mobilise bank/institutional finance to the extent required by the enterpreneurs and the marketing assistance provided by them was totally inadequate to the needs of the industries. There was no effective monitoring of the functioning of DICs and the objective of bringing under a single roof all the services and support needed by small/new units had not been achieved by them in most of the States/Union Territories.

The PAC made* 23 recommendations covering most of the points included in the AR as well as the results of their own investigation. Expeditious restructuring of DICs, investigation of the reasons for unspent balances out of the Central releases of loans and grants for promotional schemes and excess expenditure against recurring grants for establishments for taking necessary corrective measures, concerted efforts by the Ministry of Industry to provide necessary assistance to State Governments to ensure early completion of DICs buildings for their effective functioning and release of funds by the Centre for the whole year at the beginning of each year and adjustment of unspent balances against the next year's release were suggested. Discrepancies in the figures of DIC buildings completed were required to be investigated and necessary guidelines issued to ensure that the buildings constructed for DICs were properly scrutinised by technical personnel. The Ministry of Industry was required to ensure the delegation of adequate powers to DICs as far as possible and bring about effective coordination of all the concerned authorities including Electricity Boards and financial institutions under one roof. Each DIC was to have well equipped Information and Documentation Centre which could effectively assist the prospective entrepreneurs in the area covered by it. The Ministry of Industry was required to ensure that all the vacant posts of General Managers/Functional Managers/Project Managers in the DICs were filled up at the earliest with competent men from all sources and to arrange for comprehensive training so as to improve the functioning of DICs. The Committee desired that the DICs should be required to play a more active role in monitoring the position and taking appropriate action in coordination with other State and Central authorities. The present position regarding grant of loans by financial institutions was found to be most unsatisfactory and needed to be streamlined, if necessary, by

* 219th Report (1983-84) Seventh Lok Sabha presented on 17th August, 1984.

covering such areas by some of the existing Lead Banks immediately. By periodical and effective monitoring and follow up action. The Ministry was to ensure that proper and adequate extension services were available in all the Centres in the country. The DICs were to evolve a proper monitoring mechanism to keep a close watch over the setting up of units as well as functioning of units set up and to render all assistance to obviate sickness. The Ministry of Industry was to ensure that constitution of the Committees strictly conformed to the guidelines issued and that in particular the district level Committees associated with them the elected representatives, commercial banks and public finanical institutions at various levels. The Committee stressed the need for effective monitoring to assess the impact of the programme on the economy in terms of value added and employment generated by the industrial units established by the DICs and to take steps to achieve their steady growth was stressed. The results obtained were to be published for the information of Parliament and the public.

SUPPLY OF DRINKING WATER TO PROBLEM VILLAGES*

A Central scheme for providing safe drinking water to problem villages, launched in 1972-73 to supplement the resources of the State Governments, discontinued from 1974-75 on introduction of the MNP, but reintroduced during 1977-78, was reviewed in audit and Central assistance of Rs. 157.17 crores was released upto 1979-80. Sixth Five Year Plan provided Rs. 1444.11 crores under State sector and Rs. 600 crores under Central sector of which Rs. 544.17 crores were released during the first four years of Sixth Plan. According to the survey conducted by Special Investigation Divisions in various States, 2.31 lakh villages were identified as problem villages in April 1980 but more and more villages were subsequently added to the list by the States. The release of Central assistance was subject to the State Governments utilising in full the MNP outlays; during the first four years, MNP funds were not fully utilised in the States of Andhra Pradesh, Bihar, Gujarat, Karnataka and Punjab; expenditure of Rs. 2669.60 lakhs was reported in excess of the actual expenditure incurred in 5 States; unspent balances out of the Central assistance amounting to Rs. 6379.60 lakhs remained with the States of Uttar Pradesh, Karnataka, Punjab, West Bengal and Arunachal Pradesh in March 1984; Rs. 575.19 lakhs out of Central assistance were diverted for other purposes in the States of Punjab, Orissa, Bihar, Tamil Nadu, Uttar Pradesh and Meghalaya and

* Para 29 of AR (1983-84) signed by Shri O.P. Goel, countersigned by Shri T.N. Chaturvedi on 4th May, 1985 and presented to Parliament on 16th May, 1985.

expenditure of Rs. 583.28 lakhs proved unfruitful due to non-repair of defects, non-supply of power, non-removal of casing pipes from failed wells, non-completion of rising mains and distribution system and non-salvaging of buried assembly. In 11 States and 2 Union Territories (out of 19 States and 5 Union Territories test checked), 10190 non-problem villages were covered under the programme upto March 1984 contrary to the conditions of assistance. In many States, unsafe and untested water was being supplied to the villages covered under the scheme although the main objective of the programme was to provide at least one source of safe potable water to be available throughout the year. In 11 States, 2096 water supply schemes involving an expenditure of Rs. 838.06 lakhs failed to provide the intended benefits to the problem villages due to inadequate source of water, non-construction of wells upto the prescribed depth and dispute over water sources; in 6 States, expenditure of Rs. 2748.99 lakhs was rendered infructuous as the schemes failed due to wrong selection of sites and in four States and one Union Territory, extra expenditure of Rs. 323.66 lakhs was incurred due to provision of wells in excess of the prescribed number and piped water supply instead of sanitary wells and hand pumps in 855 villages. Proper coverage of the needs of SC/ST villages was not given in the States of Assam, Bihar, Gujarat and West Bengal, despite high priority required to be given to such villages. In Himachal Pradesh and Karnataka, 135 schemes sanctioned during February 1979 to March 1983 were not taken up for execution (March 1984), while in Assam, Bihar, Gujarat, Kerala, Orissa, Rajasthan, Uttar Pradesh, Pondicherry, Maharashtra and West Bengal, schemes taken up 3 to 10 years back were still incomplete resulting in escalation of cost; in 9 States, the actual coverage during the first 4 years of the Sixth Plan was only 42,220 problem villages against the Sixth Plan target of 87102 villages for these States. In the States of Andhra Pradesh, Assam, Madhya Pradesh, Manipur, Rajasthan, Maharashtra and Meghalaya, the gram panchayats were not able to discharge their responsibility to maintain the schemes properly and many of the schemes became defunct and additional expenditure had to be incurred for their revival/main tenance. Stores valued Rs. 368.05 lakhs were purchased in 7 States during 1979-80 to 1983-84, which were not actually required for works under the scheme; in 4 States and 2 Union Territories, shortages of stores worth Rs. 93.25 lakhs were noticed during physical verification. In Manipur and the then Union Territory of Goa, Daman and Diu, over payment of Rs. 5.62 lakhs was made to contractors in respect of 8 schemes and in 5 States, avoidable extra expenditure of Rs. 79.37 lakhs was incurred due to procedural delays, frequent changes in designs and source of water, purchase of costly pipes and extra payment to contractors. The monitoring of coverage of villages under the scheme was done by the Ministry only through progress reports received from the State Governments and there was no adequate system of inspection to verify the progress. No monitoring/evaluation of the programme was done by the States of Andhra Pradesh, Manipur, Orissa, Punjab, Meghalaya, Arunachal Pradesh and Mizoram and information about other States was not available.

PAC'S RECOMMENDATIONS

The PAC made* 30 recommendations. The Committee feared that the target laid down for the Seventh Plan period might not be achieved, unless the Department of Rural Development and the State Governments intensified their efforts and hoped that they would be able to mobilise adequate financial and physical resources to achieve the revised targets with liberalised norms. Government could take steps to ensure that surveys for identifying problem villages were carried out realistically so as to fix the target to be achieved and also to identify areas, where successive droughts occurred with a view to find a permanent solution and envisage a method, whereby drinking water would not become a problem on account of drought. The spill-over 39000 problem villages from the Sixth Plan were to be provided with potable water by the year 1987-88 and the Committee liked to be apprised of the progress in this regard. Adherence to the minimum laid down norms of water supply was to be enforced strictly. Formulation of schemes in consultation with the State Governments to take afforestation on a wider scale and plough back the resources so generated in water management schemes was suggested. The Rural Development Department was to keep a strict watch on coverage of SC and ST population to ensure them minimum supply of drinking water. The procedure was to be streamlined to check recurrence of diversion of funds in future, if necessary, by deducting the amount equal to funds diverted by the concerned States from their share of Central assistance earmarked for next year with a view to curbing the tendency on the part of the States to misutilise funds sanctioned for this purpose. Cases of unfruitful expenditure were deprecated by the Committee, which exhorted the Department of Rural Development to ensure that schemes completed were commissioned at once so that their benefits were made available to people. The Committee took a very serious view of the highly unsatisfactory state of water supply in commissioned pumps and supply of brackish and non-potable water with potential health hazards in many States and urged the Government to

* 85th Report (1986-87) 8th Lok Sabha, presented on 24th April, 1987.

ensure that there was no sickness and death from water borne disease and to issue instructions calling for strict action against officials found negligent and guilty and liked to be apprised of the remedial steps taken by the Government in this regard. Feasibility of using reports of Remote Sensing Agency for locating of water reserve was suggested with a view to achieve better results. The Committee hoped that with the introduction of concurrent evaluation on the status of availability of drinking water in rural areas, the Department of Rural Development would be able to monitor more effectively the maintenance of drinking water supply schemes in rural areas. Action against those responsible for using substandard material was suggested. According to the Committee, action taken on the reports of evaluation conducted in 11 States in 1982 by the National Enviornmental Engineering Institute, Nagpur, to bring the much desired improvements on the implementation of the programme was called for. A suitable monitoring system was to be evolved to ensure the successful implementation of the scheme by means of suitable control device so that there was no abnormal delay in the completion of the schemes. Water shed management and conservation schemes under the Drought Prone Area Programme and the schemes for supply of drinking water to problem villages were required to be coordinated and integrated right from the formulation stage to its maintenance to conserve resources to make the scheme effective and purposive.

INTEGRATED RURAL DEVELOPMENT PROGRAMME*

The IRDP was launched 1976-77 and further intensified and extended from 2nd October, 1980 to cover the entire country with a view to assist the rural families to come above the poverty line. The Sixth Plan outlay was Rs. 1,500 crores to cover the expenditure on subsidy to be granted to 15 million families. The review brought out that the pattern of assistance provided under the programme gave an assistance of Rs. 1,000 only per family, which was far below the amount of Rs. 7,000 to Rs. 9,000 estimated by the experts to be required to generate income that would raise the beneficiaries above the poverty line. Rs. 1302.03 crores were spent during 1978-79 to 1983-84 to cover 147.63 lakhs beneficiaries. The financial/physical achievements reported by various States/Union Territories were found inflated and deficient in several respects. A number of posts of experts in various disciplines were not filled in and staff essential for the effective implementation/monitoring was not provided in various States/Union Territories. House hold surveys for

* Para 4 of AR 1983-84 signed by Shri O.P. Goel, countersigned by Shri T.N. Chaturvedi on 8th May, 1985 and presented to Parliament on 16th May, 1985.

identifying the beneficiaries and for preparation of local resources to ensure the success of the programme, were not carried out in most cases. Subsidy was sanctioned to a large number of ineligible families. The 'Antyodaya' approach was not always followed. Many cases of payment/release of subsidy/funds for purposes not connected with IRDP were noticed *e.g.* in Himachal Pradesh an amount of Rs. 0.38 lakh was spent during 1980-81 to 1983-84 on items of entertainment. Second milch animal required to maintain the continuity in income of the beneficiaries throughout the year, was not provided in many cases. No provision was made for conducting the physical verification of assets created out of the funds spent till March 1982 nor was any physical verification carried out by most States/Union Territories. Instances of non-existence of assets and misutilisation of subsidy were noticed wherever physical verification was conducted. There were many cases of advance payment of subsidy before banks/financial institutions dispersed the loan, which not only resulted in blocking up of IRD funds but also gave undue benefits to the banks/financial institutions by way of interest earned. Cases of delay in release of subsidy by the DRDAs resulting in extra charge on beneficiaries in the shape of interest on the amounts advanced by banks etc., excess payment of subsidy, irregular payment for creation of infrastructure, non-utilisation of infrastructure, default in recovery of loans etc. in many States were noticed. Out of 2.80 lakhs youth trained in TRYSEM, 1.80 lakhs were not able to seek employment. Many States/Union Territories had issued the 'Vikas Patrikas' prescribed for monitoring the progress and measuring the increase in the income of the beneficiaries, which did not help to watch the end objective of the programme. The Ministry had not taken any steps to evaluate the impact of the programme till May 1982. Most of the States/Union Territory Governments/administrations had also not evaluated the impact of the programme, whereas some States had conducted the evaluation in respect of few blocks only.

PAC's OBSERVATIONS

The PAC made* 64 observations and recommendations. In Committee's view, the programme failed to achieve its objectives due to defective approach in formulating and implementing it and the various built in constraints pointed out by audit and was endorsed by them. It emphasised that combined and concerted efforts by the States/Union Territory Governments and district level functionaries were needed to realise the objectives. Outlay of Rs. 1500 crores to cover the expenditure

* 91st Report (1986-87). Eighth Lok Sabha, presented on 29th April, 1987.

on subsidy to be granted to 15 million families during the Sixth Five Year Plan Period could provide an assistance of Rs. 1000 only per family, which was far below the estimated amount of Rs. 7000 to Rs. 9000 considered by the experts to be required to generate income to raise them above the poverty line. Non-preparation of annual plans/block plans, overlapping of all programmes aimed at poverty alleviation, non-existence of forward and backward linkages and commencement of programme without gearing up the organisational set up and District Rural Development Agencies and later not filling posts of experts, project officers, specialists etc. and staff essential for effective implementation/monitoring of the programme affected its effectiveness also contributed for the failure. All allied programmes and activities and the economic infrastructure required for effective implementation of these programmes were to be integrated and brought under one Ministry to avoid overlapping and to enable the Government to have an effective control over these programmes, which were to be an integral part of a single development plan formulated by a Single Development Authority and for whose effective implementation a single authority was responsible and accountable. The Committee emphasised that the IRDP must aim at not merely the individual *i.e.* (the beneficiary) but the village or group of villages as a whole which must be the arena of operation of IRDP. The need for perspective plans and the preparation of district plan being made a pre-condition for release of funds in future was emphasised. During the Seventh Five Year Plan, the assistance to be provided to the beneficiary was to be increased keeping in view the rising prices so as to make it realistc and credible outlays were to be made by the IRDP. Blatant disregard of the Government instructions was to be investigated and responsibility for the lapses fixed. It was emphasised that the Government and the banks must coordinate their activities in connection with the disbursement of loans and should take steps to avoid the delay in sanctioning and disbursement of credit instalments by alerting the administrative machinery and the problems faced by the beneficiaries in obtaining loans from the banks should be analysed in detail and the rules simplified in consultation with RBI/NABARD. The circumstances leading to payment of excess subsidy were required to be thoroughly investigated and action taken against the delinquent officials. The Government of India was to direct the State Governments to reply to the audit objections/observations expeditiously so that such matters were settled well in advance and not incorporated in Audit Reports. While taking a very serious view over the reply of the Government that the agencies were not following the instructions governing release of subsidy, the Committee urged the Government to take remedial steps to see that codal instructions were scrupulously followed and desired to be apprised of the action taken. There was to be adequate supervision and business like approach on the part of the departments to ensure that the beneficiaries got the assistance within the specified time and were not subjected to any hardship by the departmental officials and strict action was to be taken against the functionaries found involved or indulging in misuse or misappropriation of subsidy. In Committee's view the Ministry failed to keep an eye on credit utilisation and there was to be proper co-ordination between the DRDAs and the financial institutions. The visiting teams entrusted with the responsibility of overseeing the programme had not properly performed their duties and had not realised the challenging nature of an important assignment in the national interest. The Committee wanted to be apprised of the remedial measures taken to avoid recurrence of such lapses in future. The statement made by the Minister of State for Finance in the Lok Sabha on 8th April, 1987 that no comprehensive review of viability of old units financed by bank under the IRDP was done, did not indicate a satisfactory state of affairs and the Government should review continuously the viability of activities for which the loan was sanctioned. While selecting the activities for IRDP every care was to be taken to see that requisite raw materials and other inputs were made available to the beneficiaries at the right time and at reasonable prices. State Governments were also to see that their produce was marketed at remunerative prices. The Ministry of Rural Development was to get the expenditure made on creation of infrastructure subjected to audit by the respective Accountants General/Directors of Audit in all the remaining States/Union Territories and to furnish the result thereof to the Committee. The need to ensure that IRDP funds were not misutilised were stressed and deterrent action against the officials responsible for misutilisation or diversion of IRDP funds and to made the State Government responsible to replenish such misuse and diversions was suggested. Outlays and targets and the approval of Annual Action Plan etc. should be completed sufficiently in advance and communicated so that the first and the second instalments for the year could be released by the Government of India and State Governments by 30th April and 30th September, which should also provide targets for each month or quarter and the number of cases to be tackled. Necessary steps were to be taken for proper selection of the trade and strengthening of organisational set up for effective implementation and monitoring of the programme.

THE NATIONAL PROJECT ON BIOGAS DEVELOPMENT*

The project was sanctioned in 1981 as a Central scheme with an outlay of Rs. 50 crores on account of subsidy and envisaged setting up of 4 lakh biogas units during the Sixth Plan period (1980—85), which was later reduced to 3.35 lakhs. Additional amount of Rs. 150 crores was to be raised through institutional finances. Rs. 80.96 crores were released to various States, Union Territories and KVIC during the period from 1981-82 to 1984-85. The pattern of assistance included fixed amount of subsidy to beneficiaries and to State Governments/Union Territories for organisational support, training etc. Against the target of 3,35,000 plants fixed by the Central Government, 3,55,887 plants were set up as per records of the Ministry. Test check by audit in 16 States and 2 Union Territories revealed shortfall in achievement of targets in 10 States and 1 Union Territory and excess in 6 States and 1 Union Territory. There was a discrepancy of 3877 in the figures of the Ministry as compared to those of State/Union Territory Governments (21,072 plants shown in excess in 10 States and 1 Union Territory and 17195 plants shown less in 6 States and 1 Union Territory). Eight States had reported to the Central Government 13,401 plants in excess of what were actually installed. There were no completion certificates for 17,388 plants in 5 States and with KVIC. In 10 States, one UT and KVIC, 6238 plants were not functioning properly due to various defects/deficiencies, 3383 plants were not commissioned, 412 plants were lying incomplete and 844 plants did not exist. Levy cement was issued/allotted in excess of actual requirements or short supplied or diverted for other purposes in some districts test checked. In Andhra Pradesh, Bihar, Maharashtra, Punjab, Uttar Pradesh and Goa, Daman and Diu, sanctioned staff was not fully provided by the Governments for effective and efficient implementation of the programme. Subsidy of Rs. 57.01 lakhs was paid in advance in the States of Assam, Himachal Pradesh, Karnataka, Maharashtra, Orissa, Punjab, Rajasthan and by KVIC. In 10 States, 1 Union Territory and KVIC, delay in disbursement of subsidy to the beneficiaries was from one to 36 months, despite availability of funds. Rs. 221.64 lakhs in 5 States and Rs. 246.18 lakhs in 4 States remained unutilised with banks/departmental officers at the end of March 1984 and March 1985 respectively. Against the release of Rs. 77.42 crores accounted for in the books of State Governments/UTs/KVIC, only Rs. 66.11 crores were utilised. Subsidy to the extent of Rs. 10.03 lakhs was paid to beneficiaries at higher rates than admissible in Himachal Pradesh, Orissa and Tamil

* Para 27 of AR 1984-85 signed by Shri D.K. Chakravorty, countersigned by Shri T.N. Chaturvedi on 28th April, 1986 and presented to Parliament on 7th May, 1986.

Nadu. Out of Rs. 369.45 lakhs paid as advances for installation of biogas plants and supply of cement during 1981-82 to 1984-85, Rs. 129.27 lakhs were not adjusted till March 1985. In 9 States and one Union Territory, the percentage of plants installed during the last quarter of each year ranged from 40 to 100 entailing rush of expenditure at the end of the financial years. Subsidy to the extent of Rs. 22.14 lakhs was obtained in excess by Himachal Pradesh and Madhya Pradesh (including KVIB) for incomplete/non-existing plants or at higher rates. Out of 97,516 cases recommended to banks, loan was sanctioned only in 48,690 cases and actual disbursement was made to 37,321 beneficiaries in the States of Andhra Pradesh, Haryana, Uttar Pradesh and West Bengal. In Gujarat, Maharashtra and Orissa, loan was sanctioned in 19741 out of 66,744 cases. In Tamil Nadu, 21,265 out of 35,005 applications were only processed and the remaining 13,740 cases were pending from 1981-82 to 1984-85. Submission of utilisation certificates for Rs. 889.85 lakhs was delayed for 1 to 3 years by 8 States. The targets for various training courses were not achieved. A number of trained masons who received training stipends, were not available for the construction and maintenance of biogas plants. Adequate number of demonstration plants had not been set up in selected villages of the intensive biogas development districts for publishing the utility of biogas plants for domestic purposes. Co-ordination committees constituted at State level for monitoring the programme, did not meet at all in one State and one Union Territory, and they met once in Kerala, twice in Himachal Pradesh and thrice in Tamil Nadu during four years. Timely action for reviewing the actual achievements against targets fixed, assessment of actual working of plants installed and identification of defective plants was not taken in any of the States test checked. Evaluation of the programme had not been done in any of the States and Union Territories upto March 1985. Evaluation survey reports were stated (January 1986) to have been received by the Ministry from 3 agencies (final) and 2 agencies (interim), but results thereof and follow up action taken was not intimated.

PAC's RECOMMENDATIONS

The PAC made* 20 recommendations on the various points included in the AR. According to it the programme was widely acceptable and very popular with marginal farmers, village women, adivasis and other economically backward people but the implementation was slow due to inadequate finance and it urged the Government to give top priority to

* 96th Report (1986-89) 8th Lok Sabha presented on 30th April, 1987.

its implementation and suggested building up of small size biogas plants on priority basis for giving benefit to the poor and economically weaker sections of the people. The targets for setting up such community biogas plants during the Sixth and Seventh Plans were considered to be insignificant in relation to the rural area and huge population of the country and all out efforts were needed to set up more community and institutional biogas plants in near future by drawing up an All India Plan, and integrated development programme in consultation with the State Governments and their effective implementation. Strict vigilance over the reporting agencies to avoid misreporting of facts was suggested. Action in regard to non-existent KVIC plants was to be pursued and Government was to look into cases of irregularities with greater care. All cases of fictitious reporting and mis-appropriation of public money were to be investigated and penal action taken against those found guilty. Foolproof procedure was to be devised to ensure prompt settlement of all assistance accounts and the prescribed procedure was to be strictly adhered to by the Ministry, State Governments and Union Territories. Future development plans were to be prepared with adequate care sufficiently in advance so as to fix targets realistically and to avoid *ad hoc* decisions. The Committee also urged the Government to take adequate steps to recover/adjust subsidy paid to the beneficiaries in advance and ensure proper arrangement of adjusting the advance in future. Unencouraging results of mobilisation of institutional finance pointed out by Audit which had retarded the implementation of the programme needed to be tackled by chalking out a workable plan in consultation with the RBI, NABARD, AFC and the implementing agencies for providing institutional financial support to ensure timely implementation of the programme. The prescribed procedure for monitoring the progress of the programme was to be translated into action so that shortcomings of the systems were identified and remedial action taken with due promptitude. Government should continue to evaluate the programme periodically to remove deficiencies and bottlenecks and to ensure modifications with reference to latest technological advancement, keep constant watch over release of funds, streamline procedure relating to loan and subsidy, strengthen the inspection procedures, eliminate non-existent plants from the scope of subsidy and loans and impart training for proper maintenance and operation of the plants. ATR† indicated that 17 recommendations were accepted by Government, 1 was not pursued in the Committee after receipt of Government replies and in 2 cases replies furnished by Government were not accepted by the Committee and the position was reiterated.

* 135th Report (1987-88) 8th Lok Sabha presented on 29th April, 1988.

DESERT DEVELOPMENT PROGRAMME**

Deserts in India comprised both hot and cold arid deserts and the National Commission on Agriculture delineated, in 1974, an area of about 2.36 lakh sq. kms. of hot arid desert in Gujarat, Haryana and Rajasthan. Though the cold desert regions were identified in Himachal Pradesh and Jammu and Kashmir, the commission did not delineate the area requiring development. Rs. 167 crores were spent under the desert development programme from 1977-78 to 1986-87 covering an area of 3.62 lakh sq. kms., which included Rs. 151 crores spent on hot desert covering an area of 2.36 lakh sq. kms. in the States of Gujarat, Haryana and Rajasthan and Rs. 16 crores on cold desert covering an area of 1.26 lakh sq. kms. in the States of Himachal Pradesh and Jammu and Kashmir. There was little impact in the containment of deserts, which the expert groups attributed to the spreading of the scarce resources thinly over a large area. The Department of Rural Development had observed in December 1986/June 1987 that plans were neither prepared after making a survey of the resource endowments of the project area nor were these made on the micro-watershed basis; not much attention was given to the formulation of area specific plan integrating funds under various States and Centrally aided programmes; and plans were sketchy and there was lack of conceptual clarity about the objectives of the programme and methodology and techniques of formulating appropriate schemes at the middle and lower levels.

The National Commission on Agriculture had pointed out in 1976 the need for formulating a separate strategy for the development of cold desert areas based on intensive research of local environmental conditions; however, no differentiation had been made in the programme components between hot and cold deserts. After the programme was in operation for a decade, the Central Sanctioning Committee recognised in 1986 the lack of an appropriate technology for the development of cold arid zones and the absence of infrastructure for research in these areas. Several financial short comings/irregularities were noticed, such as incurring of disproportionately large amounts during the last quarter of the year in Gujarat, Haryana and Rajasthan, incorrect reporting of expenditure in Gujarat, excessive expenditure on establishment in Rajasthan, non-adjustment of advances/non-receipt of utilisation certificates in Himachal Pradesh, Jammu and Kashmir and Rajasthan and diversion of funds in Haryana, Himachal Pradesh, Jammu and Kashmir and Rajasthan. The results of soil survey done in two districts in

** AR 1986-87 (No. 12 of 1988) signed by Shri D.S. Iyer and countersigned by Shri T.N. Chaturvedi and presented to Parliament on 6th December, 1988.

Rajasthan upto June 1985 on which an expenditure of Rs. 63.45 lakhs was incurred, were not utilised for formulating plans for increasing agricultural production. The actual cost incurred per hectare on creation of irrigation potential and on agriculture (soil survey/conservation) was high or too low as compared with the norms. The percentage of area irrigated by 50 tubewells, installed at a cost of Rs. 97.33 lakhs, to area targeted for irrigation ranged between 13 and 36 in Haryana. In Himachal Pradesh, though an amount of Rs. 95.61 lakhs was spent on remodelling 30 traditional irrigation kuhls (water channels for irrigation purposes), the Culturable Command Area had increased by 68.30 hectares only. The work of remodelling on nine traditional kuhls was discontinued in Kaza after spending Rs. 25.80 lakhs rendering the expenditure unproductive. Two irrigation kuhls, completed at a cost of Rs. 26.17 lakhs in Pooh Sub-division were not functioning owing to overflow/inadequacy of water. According to an observation of the District Development Commissioner, Leh, in April 1987, the expenditure of Rs. 19. 81 lakhs incurred on the Langjunthang irrigation canal had largely gone waste since the land proposed to be irrigated was full of boulders and rocks and the head of the canal was in a flood prone zone. In 2 districts test checked in Rajasthan, 30 works costing Rs. 257.22 lakhs for creating irrigation potential were completed till 1984-85. However, the actual irrigation done in 1985-86 was in 9 hectares only. There were cases of nil or low survival of plants in Gujarat, Haryana and Rajasthan though expenditure incurred was Rs. 46.09 lakhs. Non-maintenance of records of plantation was noticed in the States of Gujarat, Himachal Pradesh and Jammu and Kashmir. In Himachal Pradesh and Jammu and Kashmir, only 823 hectares and 518 hectares of land respectively were covered under forestry during 1980-81 to 1986-87. Though 157 veterinary dispensaries were set up in Rajasthan during the Sixth Plan, only 7,430 animals (less than 10 animals per year per dispensary) were artificially inseminated. Machinery and equipment costing Rs. 160 lakhs (Rs. 66.03 lakhs provided out of the programme funds) purchased by the Haryana Dairy Development Cooperative Federation during 1980-84, were lying unutilised in the open for want of milk plant building at Sirsa. In Haryana, though an amount of Rs. 9.63 lakhs was incurred on setting up a fodder farm, the sale of fodder from the farm fetched only Rs. 0.47 lakh during 1982—84. No fodder was raised on the farm after 1983-84. Despite a Desert National Park having been established in Jaisalmer, incurring an expenditure of Rs.120.74 lakhs during 1978-79 to 1986-87, to study the ecological status of the desert to understand the life cycle of plants and animals of the region, etc., no study had been conducted as the post of Research Officer remained unfilled. There was no institutionalised monitoring at the State and district levels, where the performance of the programme could be analysed in detail and problems sorted out. At the Central level there was no indepth review of the performance of the programme either. No evaluation of the impact of the programme was done in any of the States excepting in the Kaza block (Himachal Pradesh) during 1983-84. The Department of Rural Development stated in August 1988 that no evaluation study of the programme in its entirety could be taken up in the past and the Programme Evaluation Organisation of the Planning Commission had been entrusted with this task which was yet to be completed.

AUDIT REPORT 1986-87

AR 1986-87* on Union Government (other Autonomous Bodies) contained a review on National Cooperative Consumers Federation of India. Important comments were that its Board of Directors were superseded in October 1987 for various lapses and the Secretary, Department of Civil Supplies assumed charge as Administrator. Its cumulative losses were Rs. 9.03 crores (share capital and reserves were Rs. 6.24 crores) mostly due to the inadequacies of management, uneconomic working of most of its branches, disproportionate increase in overhead expenses and 16 out of 23 branches incurred losses during the year. Incidence of interest charges was heavy - Rs. 194.52 lakhs in 1986-87 - due to its dependence on borrowed funds; the annual turnover declined from Rs. 159 crores to Rs. 135 crores despite potential for sales to consumer cooperatives; over 50 per cent of the turnover was on controlled cloth and confiscated goods, which made it dependent on Government patronage for business, and trade in import of dry dates and chick-peas resulted in loss of Rs. 181.53 lakhs during four years. It was debarred in January 1985 from import activity for five licensing periods due to breach/irregularities under import control orders and could not fulfil export quotas. Non-utilisation of the processing and manufacturing units for production of consumer goods fully, non-availability of its own testing laboratory of its own and non-employment of inspectors for ensuring quality of goods purchased/sold by it, heavy sundry debtors (Rs. 9.88 crores), shortages of stock valued Rs. 68.03 lakhs noticed during three years for which no responsibility was fixed and utilisation of subisidy of Rs. 160.78 lakhs received for payment to National Textiles Corporation mills for other purposes, were the other comments.

* No. 13 of 1988, signed by Shri D.S. Iyer, countersigned by Shri T.N. Chaturvedi on 22nd November, 1988 and presented to Parliament on 6th December, 1988.

AUDIT REPORT 1987-88

The Audit Report Union Government* (Civil) for 1987-88 contained 14 paragraphs including three reviews and one para was not replied by the Ministry concerned. The Ministry-wise comments are summarised below :

I. Ministry of Commerce: Pursuit of action by DGSD to recover the extra cost of Rs.18.55 lakhs from a defaulting firm, for its failure to supply 67,912.23 sq. mts. of leather chrome was tardy and till November 1988, the whereabouts of the firm were not located. Extra expenditure of Rs. 9.12 lakhs was incurred on local purchase by an ordnance clothing factory due to non-conclusion of a contract by DGSD with a firm for supply of woollen yarn. Major components of X-ray equipment for National Test House, Calcuta, delivered in July 1984 but opened in January 1985 were found damaged and beyond repairs and despite the notice served by the DGSD, in December 1986, the firm had neither replaced the damaged parts nor the equipment procured at a cost of Rs.7.47 lakhs from abroad installed.

Default by un-registered and un-tried firm to supply 325 numbers of jacks hydraulics which, contrary to the recommendation of the indentor that procurement should be made direct from a manufacturer and not from a selling agent, necessitated purchase of the stores from another firm in December 1986 at the risk and cost of Rs. 7.33 lakhs by DGSD and the demand notice issued by the DGSD to recover the extra expenditure was received back undelivered and the defaulting firm could not be located. Failure of a firm to supply pickets M.S long for an ordnance depot, and delay by DGSD in cancelling the order necessitated purchase of cancelled quantity at an extra expenditure of Rs. 4.91 lakhs and since the risk purchase was made after the expiry of the period of six months from the date of breach, the defaulting firm was liable to pay only general damages, which was neither assessed nor recovered. Avoidable expenditure of Rs. 4.18 lakhs was caused to the indentor by placing an order by DGSD in July 1987, for supply of hydrogen peroxide in non-returnable carboys though the purchase of material conforming to ISI specification in road tankers would have been in conformity with the accepted policy.

II. Ministry of Industry: (i) The review on development of small scale industries brought out that expenditure of over Rs. 490 crores was incurred during the Sixth Plan and the first three years of the Seventh Plan against the plan outlay of Rs. 673 crores on central and centrally

* No. 12 of 1989 signed by Shri D.S. Iyer, countersigned by Shri T.N. Chaturvedi on 1st June, 1989 and presented to Parliament on 18th July, 1989.

sponsored schemes for the development of small scale industries. There was substantial shortfall under the Margin Money Scheme for revival of six units (93 per cent), the scheme for providing self-employment to educated unemployed youth (22 per cent) and the District Industries Centres Programme (28 per cent). Under the Scheme for providing self-employment to educated unemployed youth, the loans were actually disbursed to only 49.3 per cent of the targeted beneficiaries. Sample surveys/evaluation in eight States with regard to utilisation of loans under the scheme revealed that loans amounting to over Rs. 48 crores involving central subsidy of Rs. 12 crores, had been misutilised/diverted for other purposes. In a large number of cases, banks had drawn full amount of central subsidy from Reserve Bank of India (RBI) for loans under the scheme, which, though sanctioned, were not finally disbursed to the beneficiaries. Excess drawal of subsidy by the banks on this account amounted to Rs. 5.57 crores. The percentage of sick units out of total small scale units had increased from 3.2 in December 1979 to 7.8 in June 1987. Margin Money Scheme for revival of sick units had a plan outlay of Rs. 20 crores for the Sixth Plan period, against which only Rs. 1.14 crores were released. The scheme was stated to be not popular as many State Governments had their own Margin Money Schemes with better norms. The coverage under modernisation programme which was implemented by Small Industries Services Institute was insignificant. The establishment of monitoring and evaluation cell for undertaking regular quality assessment of the schemes and programmes and also for monitoring their implementation recommended by the Working Group on small scale industries for the Sixth Plan had not been taken up for implementation even after a lapse of five years.

III. Ministry of Surface Transport - National Highways : The Roads Wing of the Ministry of Surface Transport responsible for formulation of policies and provision of funds for the development and maintenance of National Highways was not able to exercise effective financial control over the execution of these works by State Governments. The reimbursement of expenditure to the States was in excess of budgetary allotment and there were instances of execution of works without approval, as also of incurring expenditure in excess of permissible limits. Delay in the progress of works financed by World Bank led to an extra liability of Rs. 101.55 lakhs till June 1988 on account of commitment charges. The provision of funds for maintenance of National Highways was far below the prescribed norms and adversely affected the maintenance unit. Faulty planning/design, inadequate survey and investigations, delay in land acquisition and award of work, change in the scope of work during execution, etc. resulted in time and cost over run. Test check revealed cases of idle investment of Rs. 663.95 lakhs in five states. Inadequate quality control resulted in execution of sub-standard works, rectification of which entailed an additional expenditure of Rs. 131.12 lakhs. Of the specialized machinery for works worth Rs. 29.46 crores, acquired by the Roads Wing out of Central fund for speedy qualitative execution of works, many were either lying in an unserviceable condition or had been declared beyond economical repairs. Rs. 443.28 lakhs had not been recovered from contractors/agencies for long periods. The monitoring by the Centre as well as the States was not effective/adequate.

IV. Ministry of Urban Development: Integrated development of small and medium towns - The Centrally sponsored scheme of development of small and medium towns providing for central assistance on matching basis was initiated in December, 1979. The scheme was intensified in Sixth Five Year Plan with an outlay of Rs. 96 crores for developing 231 towns. These towns were intended to serve as growth and service centres for the rural hinter-land reducing the rate of migration from rural to urban areas. The scheme was extended in the Seventh Five Year Plan to cover additional 102 towns alongwith spill over works for which plan outlay of only Rs. 88.00 crores was made. Against the budget provision of Rs. 137 crores, the central assistance released to the State Governments/Union Territories amounted to Rs. 111 crores only. The State Governments provided Rs. 84 crores as their share. Unutilised funds with the implementing agencies amounted to Rs. 51 crores as on 31st March, 1988. Test check of the records in 25 States and 4 Union Territories revealed that out of 235 towns taken up during the Sixth Plan period, the projects in 25 towns in four States had only been completed by March 1988. There was considerable shortfall in achievement of benefits envisaged for economically weaker sections/low income group. There was no achievement under low cost sanitation scheme till the end of the Sixth Plan. Very little progress was made under Low Cost Sanitation during the first three years of the Seventh Plan in several States. Funds over Rs. 350 lakhs were diverted by implementing agencies to works/purposes not included in the approved projects. Funds amounting to Rs. 240 lakhs remained blocked due to the works remaining incomplete for a considerable time in six States/Union Territories. Assets over Rs. 290 lakhs remained unutilised in six States because of absence of essential facilities, bad location due to lack of public response etc. Works on which total expenditure of Rs. 145 lakhs had been incurred were either abandoned or were lying incomplete due to defective planning or paucity of funds. Monitoring of the scheme at the Centre and the State level was not effective.

EXPORT PROCESSING ZONES

The Audit Report* for the year ended 31st March, 1988 contained a review on the "Export Processing Zones" in the country, established in Kandla (Gujarat) in 1965, in Santacruz, Bombay (Maharashtra) in 1972 and in Cochin (Kerala), Falta (West Bengal), Madras (Tamil Nadu) and NOIDA (Uttar Pradesh) in 1984. The export processing zones were intended to provide an internationally competitive duty-free environment for export production at low costs so that exporting firms can operate successfully in the international market. Despite the numerous incentives and concessions given by the Central Government, State Governments and other agencies, the number of units actually established fell far short of the number of approvals accorded. Even in the established zones of Kandla and Santacruz, 7 plots and 32 sheds remained unallotted. In Madras and Noida zones, 77 plots and 45 sheds were not allotted. Out of the established units in the Kandla zone, the mortality rate of units upto March 1982 and March 1988 was 30.2 and 25.4 per cent respectively. In the Santacruz zone, the mortality rate was 17.4 per cent for the period ending March 1982 which increased to 23.7 per cent by March 1988. In real value terms, reckoned with reference to the value of the rupee computed with 1960 as the base year, exports from the Kandla zone declined by 13.4 per cent and increased by 35 per cent from the Santacruz zone. Contribution from the export processing zones to total exports from the country ranged from 2 to 2.97 per cent during 1982-83 to 1987-88. The net outflow of foreign exchange in hard currency from the Kandla zone during 1981-82 to 1987-88 was Rs. 597.48 crores. During the same period, there was a nominal net inflow of foreign exchange in hard currency amounting to Rs. 9.56 crores in the Santacruz zone. Though the imports were mainly from the countries in the General Currency Area, exports from Madras, Cochin and Falta zones were mainly to countries in the Rupee Payment Area. During 1987-88, nine per cent of the working units in Kandla and Santacruz zones contributed 58 and 63 per cent respectively of total exports from these two zones. The prescribed net export earnings were not achieved by 27 and 72 per cent of the exporting units in Kandla and Santacruz zones respectively during 1986-87. Out of the 41 units functioning for more than five years in the Santacruz zone, 31 units had not achieved the projected exports. In

* No. 16 of 1989 signed by Shri D.S. Iyer and countersigned on 2nd August, 1989 by Shri T.N. Chaturvedi and presented to Parliament on 18th August, 1989.

a few cases, the shortfall exceeded 80 per cent. The prescribed value addition of 50 per cent, on an average, for the Santacruz zone as a whole was not achieved in any year. There was a short fall in the achievement of annual export targets in the Kandla zone during 1983-84 to 1987-88 except in 1984-85. The targets were not achieved during 1984-86 and 1987-88 in the Santacruz zone. None of the new zones had been able to achieve the annual export targets fixed by the Ministry. Inadmissible duty exemption on finished goods imported by units in Kandla, Madras and NOIDA zones resulted in loss of revenue of Rs. 36.81 crores. Duty amounting to Rs. 1.47 crores on unutilised imports had not been recovered from units in Kandla and Santacruz zones. Outstanding dues on account of lease rent etc. from the units in all the zones amounted to Rs. 2.44 crores. Substandard/rejected goods including computer accessories and peripherals valued at Rs. 1.93 crores with the units in the Santacruz zone had not been disposed of.

LIST OF ABBREVIATIONS

1.	AR	—	Audit Report
2.	ATR	—	Action Taken Report
3.	AFC	—	Agriculture Finance Commission
4.	AG	—	Accountant General
5.	AGCR	—	Accountant General, Central Revenues
6.	AGCWM	—	Accountant General, Commerce, Works and Miscellaneous
7.	AOs	—	Accounts Officers/Audit Officers
8.	AAOs	—	Assistant Accounts Officers/Assistant Audit Officers
9.	CAG	—	Comptroller and Auditor General
10.	CAG's(DPC) Act	—	Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act.
11.	CAO	—	Chief Audit Officer
12.	CPAO	—	Chief Pay and Accounts Officer
13.	CPWD	—	Central Public Works Department
14.	CCIE	—	Chief Controller of Imports and Exports
15.	CCS	—	Cash Compensatory Support
16.	CW&PC	—	Central Water and Power Commission
17.	CPWA Code	—	Central Public Works Account Code
18.	CA Cell	—	Concurrent Audit Cell
19.	DAsG	—	Deputy Accountants General
20.	DAG, I&S	—	Deputy Accountant General, Industry and Supply
21.	DAG(PCI)	—	Deputy Accountant General (Production, Commerce and Industry)
22.	DPAP	—	Drought Prone Area Programme
23.	DIC	—	District Industries Centres
24.	DICP	—	District Industries Centre Programme
25.	DDA	—	Dandakaranya Development Authority
26.	DCRG	—	Death-Cum-Retirement Gratuity
27.	DRDA	—	District Rural Development Agency
28.	DGS&D	—	Director General, Supplies and Disposals
29.	ECPA	—	Efficiency-Cum-Performance Audit
30.	FRSCS&M	—	Food, Rehabilitation, Supply, Commerce, Steel and Mines
31.	FRS	—	Food Relief and Supply/Food Rehabilitation and Supply
32.	FCI	—	Food Corporation of India
33.	GAD	—	Gazetted Audit Department
34.	GM	—	Gazetted Miscellaneous
35.	ISI	—	Indian Standards Institution
36.	ICAR	—	Indian Council of Agricultural Research
37.	IRDP	—	Integrated Rural Development Programme
38.	IRD	—	Integrated Rural Development
39.	KVIC	—	Khadi and Village Industries Commission
40.	KVIB	—	Khadi and Village Industries Board
41.	LS	—	Lok Sabha
42.	MNP	—	Minimum Needs Programme
43.	NH	—	National Highway
44.	NABARD	—	National Bank of Agriculture and Rural Development
45.	NIT	—	Notice Inviting Tenders
46.	OAD	—	Out Side Audit Department
47.	PAC	—	Public Accounts Committee
48.	PAO	—	Pay and Accounts Officer

49.	PF	—	Provident Fund
50.	RAP	—	President Audit Party
51.	RDA	—	Rural Development Agency
52.	RBI	—	Reserve Bank of India
53.	SAS	—	Subordinate Accounts Service
54.	SGCs/UDCs	—	Selection Grade Clerks/Upper Division Clerks
55.	Stenos	—	Stenographers
56.	SO	—	Section Officer
57.	SGArs/Ars	—	Selection Grade Auditors/Auditors
58.	SrDAG(W)	—	Senior Deputy Accountant General (Works)
59.	TRYSEM	—	Training of Rural Youth for Self Employment
60.	UT	—	Union Territory
61.	WAD	—	Works Audit Department

SOURCES AND REFERENCES

1. Indian Audit and Accounts Department by Shri M.S. Ramayyar
2. Collection of Letters issued to the CAG in Connection with Separation of Accounts from Audit (Parts I to III)
3. Pay and Accounts Office Manual
4. Manual of Supply Audit Development - All Editions
5. Test Audit Department Manual - All Editions
6. Concurrent Audit Department Manual - All Editions
7. Works Audit Manual of the Office of the ACGWM/DACWM - All Editions
8. Manual of Office Procedure of the Office of the AGCWM/DACWM - All Editions

24 Audit of Science and Technology

ORIGIN

Consequent on the enactment of Atomic Energy Act in April 1948 providing for the development and control of atomic energy and for purposes connected therewith, the Atomic Energy Commission was set up in August 1948 with the object of developing atomic energy for peaceful purposes in India. The Prime Minister, Shri Jawaharlal Nehru decided* in October 1948 that the expenditure on the Atomic Energy Commission should be admitted in audit on his certificate and the detailed accounts of the expenditure were to be maintained by the Secretary, Department of Scientific Research, which were to be checked by the Principal Secretary to the Prime Minister, before his approval. The Secretary, Department of Scientific Research was required to personally consult the Secretary in the Finance Ministry before formulating proposals regarding the pay and allowances of posts to be created by the Commission and indicate the concurrence of the Secretary, Ministry of Finance, while submitting them to the Prime Minister for approval. The then Auditor General of India, Shri V. Narahari Rao recorded, that, while formerly such expenditure was limited and maxima was prescribed, in the present case the Government had not even told that expenditure was on secret objects and it would be prejudicial not to subject it to audit in the usual manner. Before agreeing to waive audit, he was bound to satisfy himself that the whole expenditure was secret and for this purpose it would be necessary for Government to give him at least the broad outlines of expenditure. While he could appreciate the secrecy as regards the various classes of stores and materials, special types of machinery connected with the atomic research and payments to foreign experts etc. being excluded from audit, there must be certain items of expenditure like ordinary equipment and machinery, which were not solely used in connection with the atomic research and salaries and allowances of officers etc. which ought to be capable of audit without damage. This was taken up with the Prime Minister's Secretariat, Secretaries to the Ministry of Finance and the Department of Scientific Research and it was ultimately decided in June 1949 that even the secret portion of the expenditure would be open to

* O.M. dated 22/23 October, 1948.

audit provided the Ar.Gl. deputed a specially selected officer of the Audit Department, who would audit the expenditure under an oath of secrecy. Any objections in audit which were not finally resolved would be referred by the Ar.Gl. to the Prime Minister for disposal and in view of the secrecy of the expenditure from the point of view of national security, the irregularities would not be mentioned in the Audit Report, which made it all the more important for Government to ensure that the spending authority was very careful in the due observance of financial rules and proprieties. The Ar.Gl. was quite satisfied with this arrangement and left it to Government to decide what items should be treated as secret and agreed to nominate an officer, who would take an oath of secrecy, but this would not preclude him from taking the orders of the Ar.Gl. in case of any difficulty or doubt, since he was the final audit authority. This, however, would be done in a manner which would exclude intervention of any other person so as to safeguard secrecy.

AUDIT PROCEDURE

The audit procedure provided *inter alia* that while conducting the post audit it would be seen that all the amounts drawn by cheques were properly accounted for, that the gazetted officers' bills, the establishment bills and the contingent bills, prepared on the usual lines and kept in the office, were checked to see that the sanction existed for the posts and the rates of pay drawn were correct, that proper acquittances were obtained and vouchers existed for all amounts disbursed, that the certificate of Prime Minister existed for each month's expenditure and that all expenditure had generally been incurred with due regard to financial principles. Correctness of the accounts maintained was to be checked with the vouchers and the detailed monthly account showing the gross expenditure in lump and the credits pertaining to deductions. The general accounts were to show the entire gross expenditure only in lump under a prescribed head. Consultation with the Ar.Gl., *modus operandi* for processing the results of audit etc. were provided for in the special procedure. As the Law Ministry advised that there was no provision in law requiring or authorising the Administration to provide for an oath of secrecy by the Auditor of the expenditure of the Atomic Energy Commission, and if done, it would only be informal, it was decided that it would be sufficient if it was made clear to the officer concerned that he would be bound to secrecy in all matters, which came to his notice in the course of such audit. Shri P.N. Krishnaswamy, Sr. DAG, office of the AGCR was the first Officer to be nominated by CAG for auditing the expenditure incurred by the Atomic Energy Commission under the Department of Scientific Research including the grants made by the

Commission to the Committee constituted to undertake preliminary work in connection with the State Projects for processing certain rare minerals. His first report contained certain objections regarding TA bills for journeys undertaken by non-official members and officer on special duty. The practice of submission of monthly accounts together with the vouchers for Prime Minister's signature and certification of annual statements of accounts by the Prime Minister was discontinued in April 1952 but the special audit procedure continued.

Under the rules relating to the Secret Service Expenditure issued by the Government of India in January 1931 the whole of such expenditure was exempted from scrutiny of Audit. These rules had not been abrogated even after the Constitution of India came into force. But, for the first Indian Auditor General, Shri Narahari Rao, who had unilaterally revoked the 'concordats' earlier it must have been a soul stirring decision, prompted by the innate urge to respond to Prime Minister's request to protect the infant science from the glare of the criticism of the PAC and Parliament so as to let it grow to meet the national requirements.

DEVELOPMENTS IN THE NEXT DECADE

Shri P.N. Bhandari, Controller of Commercial Audit, was nominated to conduct the audit from November 1953 onwards, as the nature of the work tended to be commercial. He, however, did not find anything of a commercial nature and there were no worthwhile objections to report. Consequent on the setting up of the Department of Atomic Energy in August 1954 and location of its headquarters at Bombay, successive Accountants General, Bombay were nominated to function as auditor of the Department of Atomic Energy and Atomic Energy Commission from October 1955. The audit was done on a concurrent local audit basis in accordance with the prescribed quantum. The Department of Atomic Energy had its own accounting unit, which rendered compiled accounts to the AG, Bombay, who also received accounts from PAO, Bombay, Treasury officers and other AsG (through various Exchange Accounts), compiled them and incorporated them in the monthly civil accounts of central transactions and sent them to AGCR. The material required for the preparation of Central Finance Accounts and Appropriation Accounts was collected, compiled and sent to AGCR alongwith the requisite audit certificate. In March 1958, the Atomic Energy Commission (AEC) with full time and part time members (seven) was established with full executive and financial powers, modelled more or less on the lines of the Railway Board, in lieu of the Commission set up in August 1948. The Commission consisted of an *ex officio* Chairman (who was the Secretary to the Government of India in the Department of Atomic Energy) and two full time members - Member for Finance and Administration, who was also *ex officio* Secretary to the Government of India in the Department of Atomic Energy in financial matters and Member in charge of Research and Development (the Director of the Atomic Energy, Trombay). The Chairman was responsible to the Prime Minister, and was empowered to overrule the other members of the Commission, except the Member for Finance and Administration, who had all the financial powers of Government of India in all financial matters concerning the Department of Atomic Energy. Within the limits of budget provision approved by Parliament, the Commission was given the powers of the Government of India, both administrative and financial, for carrying out the work of the Department of Atomic Energy. Despite the radical changes in organisation, composition and autonomy - both administrative and financial - no attempt was made by the Government to modify the system of reckoning expenditure as secret for audit purposes, nor did the CAG take any initiative to change the procedure in vogue, so as to fall in line with the open system applicable to all departments/commissions, for nearly 10 years, when not a single instance of any item of objection was required to be taken up with the Prime Minister.

SPECIAL AUDIT

In 1960, the Accountant General, Bombay who was asked to conduct a special audit of the Commission reported to the CAG certain irregularities in the expenditure incurred by the Commission, and enquired, whether the transactions of the Department of Atomic Energy should continue to be treated as secret, and excluded from the Audit Report. He found that even the Annual Report for 1959-60 of the Department of Atomic Energy dealt with, in considerable detail, the various activities of the Department and contained information on various research projects undertaken, deployment of staff, sources of radio-active materials and their location in India etc. and he saw no reason to treat the expenditure, which was around Rs. 10.8 crores, as secret for purposes of audit. The then DAI, Shri G.S. Rau, also felt that it was opportune to review the procedure and, citing the analogy of the prevailing practice in USA and UK, where only a small portion of the annual expenditure was treated as secret, and the rest was audited and reported upon in the normal manner, desired the CAG to decide the manner of reporting the results, whether directly to the Prime Minister or through the Civil Audit Report. The then CAG, Shri A.K. Chanda, who was about to lay down the office, left the decision to his successor.

On assuming office, one of the first acts of the new CAG, Shri A.K. Roy, was to write to Dr. Homi Bhaba for a discussion and the Chairman, while readily agreeing for discussion, did not fail to invoke the special procedure laid down for the audit of AEC and to pin point the fact that there had not been a single case since the inception of AEC, which the Auditor General had found necessary to take up with the Prime Minister. His intention was obvious but this did not deter the new CAG from taking up with the Department of Atomic Energy the question of reconsidering the prevailing system in view of the changed circumstances and since he was not competent to withhold from Parliament reports on any important irregularities or losses, that may come to his notice during the course of audit. No major change in the system of audit or procedure adopted for reporting results took place during Shri A.K. Roy's tenure.

PROCESSING PARAS

His successor, Shri S. Ranganathan, decided to adopt the normal procedure subject to the draft paras being first cleared by his office before sending to the Secretary, AEC, Department of Atomic Energy. Whether it was the natural outcome of the decades' practice of treating the expenditure on Atomic Energy Commission as secret or a security precaution to ward off any fall out from CAG's unilateral action on reporting audit findings in his Report is difficult to conjecture but there was nothing unusual in the *modus operandi* as such, since even the then Chief Auditors of each system of Railways had to process their draft paras with the CAG's office first before sending them to the GMs of Railways, unlike the Accountants General of the States who were empowered to process them directly with the State Governments. In 1966, it was decided that the draft paras on Department of Atomic Energy proposed for inclusion in the Audit Report would be discussed by the CAG and the Chairman, AEC and by senior officers of IAAD and the Atomic Energy Department. Two paras - extra expenditure of Rs. 3.76 lakhs due to non-enforcement of risk purchase clause and avoidable expenditure of Rs. 0.22 lakh on construction of a boiler house - appeared in Audit Report 1967. Certain points noticed on construction of a project were commented upon in Audit Report 1968. A para on purchase of steel pipes and tubes appeared in Audit Report 1969. By then, not only the expenditure on Scientific Departments, particularly the Department of Atomic Energy, had grown considerably from Rs. 4.09 crores in 1956-57 to Rs. 99.50 crores by 1971-72 but new departments - Department of Electronics in 1970, the Electronic Commission in 1971 to formulate policies for achieving an integrated and self-reliant base in the country and the Department of Space in 1972, which took over the matters relating to space technology, space applications and space sciences - had been formed. Accountant General, Central, Bombay was entrusted with the audit and accounting functions relating to the Departments of Atomic Energy and of Space in September 1971. He was assisted by a Sr. DAG in direct charge and the staff complement was 1 AO,5 SOs, 24 SG. Ars./Ars. and 2 Clerks. A Resident Audit party at Bhaba Atomic Research Centre, Trombay, conducted concurrent audit of expenditure on research and development and another at the Directorate of Purchases and Stores.

ADDITIONAL ACCOUNTANT GENERAL

After the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 came into force, the arrangements for audit of scientific institutions and departments were reviewed by the then CAG, Shri A. Baksi, who placed an Additional Accountant General (Scientific Departments) in charge of the accounting of transactions of the Department of Atomic Energy and the Department of Space, maintenance of provident fund accounts of the staff of these departments other than those of Bhaba Atomic Research Centre, audit of transactions of these departments (which work was transferred from A.G. (Central), Bombay) and audit of expenditure of the Department of Electronics in the form of grant-in-aid etc. to various scientific institutions (which was transferred from AGCR, New Delhi), from 1st December, 1973. Substantial grants to autonomous bodies, especially Tata Institute of Fundamental Research, Tata Memorial Centre, Atomic Energy Education Society School, Bombay and Saha Institute of Nuclear Physics, Calcutta, were disbursed by the Government of India and, under the new Act, additional statutory responsibilities fell on the Audit Department. Six posts of A.Os, including 1 for Madras Atomic Power Project at Kalpakkam, 1 for the Space Department at Bangalore and for audit of grant-in-aid institutions *viz.* PRL and ISRO and a part-time A.O for Rajasthan Project, 14 SOs and 36 auditors were sanctioned for the audit of Scientific Departments. Audit of the Maharashtra State Electricity Board, which had larger volume and staff composition was also entrusted to him. The overall strength of the office was 166 (2 IAAS officers, 13 AOs, 31 SOs, 84 SG Ars./Ars., 16 Clerks, 4 PAs and 16 Group 'D' employees). The staff required for Kalpakkam, Rajasthan, and Bangalore was obtained on deputation from the local audit offices *i.e.*, AG, Tamil Nadu/Chief Auditor, Southern Railway/DAA P&T, Madras. As common cadres in AG, (Central) Bombay and AG Maharastra existed, no separate cadre was created for audit of Scientific

Departments and Institutions but the persons for the audit of Scientific Departments were carefully selected, so that they measured up to the requirements of the new job and did not unnecessarily hurt the susceptibilities of the scientists working in the Department. The office of Additional AG was upgraded to that of AG, Scientific and Commercial Departments, from March 1975. Resident Audit parties were set up at Bangalore, Thumba and Shar in 1974, 1978 and 1979 respectively for auditing the units of Space Department. After departmentalisation of accounts in Government of India, the office was renamed in April 1979 as that of DA, Scientific and Commercial Departments, who was assisted by a Joint Director (S & C Department). Audit functions relating to the three departments of Atomic Energy, Space and Electronics were performed on the same lines as audit of Pay and Accounts offices in the Department of Food, Rehabilitation and Supply by the D.A. through the various Resident Audit units situated in the premises of those Departments.

The Department of Atomic Energy had four RAOs at Old Yacht Club (now Anushakti Bhavan), Purchase Audit Party, Mohatta Market (now located in the campus of BARC), BARC Audit Party, Trombay and Resident Audit Office, Department of Atomic Energy Projects at Bombay. The Department of Space was audited by the Resident Audit Offices at Bangalore, Vikram Sarabhai Space Centre, Thumba, Trivandrum and Shar Centre, Sriharikota. There was a Resident Audit Office in the Department of Electronics, New Delhi. Sanctions issued by the Department of Atomic Energy/Department of Space were scrutinised by the Resident Audit Party concerned after calling for department's files, where necessary. In the case of major projects/schemes, a list of important notes and decisions taken by the Department/Commission etc. was kept for reference at a later stage, when reviews of such schemes were taken up. In respect of concurrent audit, the observations/irregula-rities/notes were brought to the notice of the heads of offices through preliminary notes and objections were settled on receipt of proper replies/compliance/corrective action. Important pending objections at the end of each quarter were consolidated and issued in the form of an inspection report every quarter and minor objections were included in the test audit note. The final annual reports covering all the pending audit observations of all the quarters were issued at the end of each year. In respect of local audit, the objections/irregularities noticed during audit were communicated through preliminary notes/observation memos, and after taking into account the replies, a final inspection report was issued to the heads of offices concerned with the approval of the Joint Director of

Audit/Director of Audit. These reports were pursued from time to time and a list of inspection reports/paras outstanding for more than six months was sent once in six months to the Chief Controller of Accounts of the Department. In respect of autonomous bodies, the inspection reports were sent to the Department concerned, which released grants to them and these were pursued till all the paras were settled. The undertakings/units which were declared as commercial by the Department of Atomic Energy *viz.* TAPS Thane, RAPS Kota, MAPS Kalpakkam, Heavy Water Pool Management, Bombay and Nuclear Fuel Complex (Fuel Fabrication Facility), Hyderabad, prepared proforma accounts, which were checked during local audit, before certification.

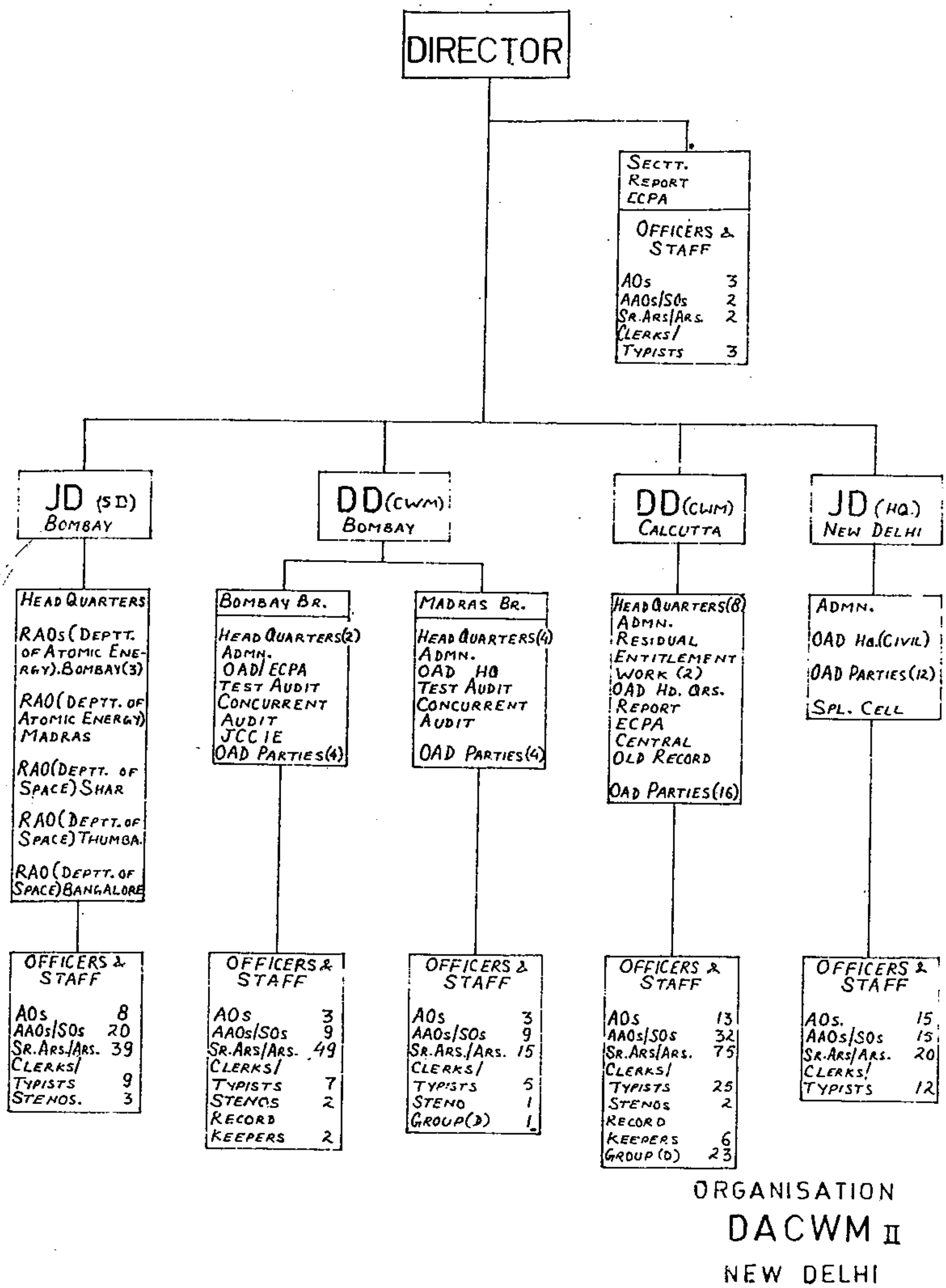
DA.C.W.M.

On the basis of the recommendations of the Science Advisory Committee to the Cabinet to have a unified audit of Scientific Departments/Bodies/Authorities, having regard to their special features and agreed to by Government of India, Shri T.N. Chaturvedi, decided in September 1984 to transfer the audit of the Department of Environment, Department of Ocean Development, Department of Science and Technology including Survey of India and Council of Scientific and Industrial Research to the control of DACWM at New Delhi, with branch offices at Bombay, Calcutta and Madras. The Department of Meteorology and Non-Conventional Energy Sources, which were under the control of Ministry of Tourism and Civil Aviation and Ministry of Energy respectively came under the jurisdiction of Ministry of Science and Technology from 1st April, 1985 and their audit came under the jurisdiction of Director of Audit (Scientific and Commercial Departments). A Resident Audit Office (S & T) was created in February 1985 at New Delhi to look after the additional work relating to the audit of these departments. The offices of the Departments of Science and Technology, Meteorology and Non-Conventional Energy Sources located at New Delhi were audited by the newly created Resident Audit Office, while the offices falling outside Delhi were audited by respective Accountant General in whose jurisdiction they were located. The audit of CSIR and its laboratories irrespective of their location was entrusted to the new office. While the special procedure for processing draft paras devised as far back as 1966 was continued, the need to corduct effective audit scrutiny was emphasised in September 1985.

NEW OFFICE

A separate office of Director of Audit, Commerce, Works and Miscellaneous - II was formed in April 1986 by bifurcating the office of the then DACW & M and its branch offices at Bombay, Calcutta and Madras, and Shri S. Sathyamoorthy was appointed as DA. The audit jurisdiction of the new office covered Departments of Atomic Energy, Space, Electronics, Ocean Development, Science and Technology including Meteorology, Survey of India, Botanical Survey, Zoological Survey etc., Ministry of Environment and Forests, Council of Scientific and Industrial Research including its laboratories and units, Indian Council of Agricultural Research including its units, and Indian Council of Medical Research including its units. As a result of this re-organisation, 398 officers and staff (34 AOs, 81 AAOs/SOs, 191 Auditors/SG Auditors, 51 Clerks/Typists, 6 P.As and 35 Group 'D' employees) were transferred from the office of the DACWM to the new office. The strength of the new office was 486 (45 AOs, 93 AAOs/SOs, 213 Auditors/S.G. Auditors, 64 Clerks/Typists, 12 P.As and 59 Group 'D' employees) besides 16 IAAS officers. The expenditure of the unified office in 1986-87 was Rs. 1.46 crores which constituted 0.07% of the total expenditure audited by it. There was no material variation in strength during 1987-88. The expenditure of the office during 1987-88 was Rs. 1.75 crores, which worked out to 0.07% of the expenditure audited by it.

The organisational set up of the office as on 1st April 1988 is shown in figure 24.1.



(source: statement showing Groupwise distribution of charges in file no.30O-BRS/88 I)

Fig. 24.1: Organisation : DACWM II, New Delhi

REPORTS

The Audit Report (Civil) - Union Government 1985-86 incorporated for the first time 14 paras including two reviews on subjects relating to Scientific Departments. The reviews were on working of tubes plant at Nuclear Power Complex, Hyderabad and on development-cum-production projects undertaken by the Department of Electronics for Navy. In addition, one review relating to Madras Atomic Power Project was incorporated in the Supplementary Audit Report 1985-86*, which was signed by DACWM-II. The review on Madras Atomic Power Project (MAPP) (20 pages and 8 sub-paras), which was the first one on a nuclear power project brought out by the CAG, though belated, constituted a relieving departure from the past three decades' performance in this vital sector. No worthwhile comments either on Atomic Energy Commission or the Department of Atomic Energy had appeared in any of the Reports of CAG on Government of India, despite the massive expenditure incurred in development of nuclear energy and connected research and development since 1950's, virtually kept shrouded in mystery and secrecy, except the publicised benefits leaked out to the media by the Department/Commission and the Ministry for the curious observer. Obviously the bold initiative, correct perspective and the new thrust given by Shri T.N. Chaturvedi had turned the search light on the implementation of the third nuclear power project.

The Nucelar profile of the Department of Atomic Energy (DAE) for the decade 1970-80, aimed at achieving 2700 MWe capacity by 1978-79 but the installed capacity on the ground was 640 MWe only, which increased to 1330 MWe after the commissioning of Rajasthan Atomic Power Station II (RAPS) in 1980, MAPP I in 1983 and II in 1985. Of the envisaged four stage growth - establishment of natural uranium fuelled heavy water moderated thermal reactors, building of advanced thermal reactors of 500 MWe, establishment of plutonium fuelled fast - breeder reactors and thorium cycled fast breeders, only the first stage was partially achieved, the second stage remained to be attempted and the third and fourth stages stood postponed to future. Setting up of indigenous heavy water plants ran into heavy weather and the failure to produce adequate heavy water, as scheduled, caused further delay in commissioning of the project already delayed. The country paid heavily for the shortfall in performance both in financial terms and in denying itself of the much needed energy. The justification for the shortfalls given by DAE - resources crunch, infancy of indigenous technology and

* Finalised on 3rd December, 1987 and placed before Parliament on 11th December, 1987.

reluctance on the part of foreign vendors to supply component and spares - did not follow from the findings in audit and *prima facie*, was, at best a sophisticated cover-up for the tardy performance or at worst an afterthought, when confronted with *expost facto* findings.

The MAPP approved in 1965, initially estimated to cost Rs. 60 crores for two reactors of 200 MWe each, was calculated to cost Rs. 61.78 crores in 1967, including the cost of heavy-water, which was revised to Rs. 77.09 crores for 215 MWe capacity in 1971. Two further revisions - Rs. 107.87 crores (September 1979) and Rs. 127.04 crores (April 1983) were made. In the case of MAPP II (215 MWe) the original estimate was Rs. 70.63 crores (May 1971), revised to Rs. 103.02 crores in September 1979 and further revised to Rs. 127.04 crores in April 1983. While the capital cost doubled, the capacity of both the units increased marginally to 235 MWe. The estimated dates of criticality, December 1974/November 1976, were postponed five times for MAPP I and three times for II - to July 1983 and November 1976 to August 1985 respectively. The cumulative delay was 8 years and 6 months for MAPP I and 8 years 8 months for II. Commercial operations were shifted to January 1984 for MAPP I and March 1986 for MAPP II. The Estimates Committee's observation that constant shifting of target dates indicated lack of realistic planning (129th Report - 4th Lok Sabha) had no impact on the performance. Neither the experience gained in setting up the earlier units nor even the identified factors, which caused slippages in schedules, could save the drift. At the end of March 1988 the actual expenditure was Rs. 121.36 crores for MAPP-I and Rs. 120.04 crores for MAPP II. There was substantial increase under fourteen out of twenty sanctioned heads. 92.33 per cent of increase of MAPP I and 79.86 per cent of MAPP II was attributed to capitalisation of some revenue expenditure, changes in scope of work, new works, additional facilities, building structures, equipments, etc., design changes and modification in individual equipments/systems, and scaling up of the output of 235 MWe, escalation in cost of components, increased burden of customs duty, stretch in project schedule, increased outlay on township, increased cost of commissioning, design modifications to meet current safety requirements and increased cost due to indigenisation. While there was marginal decrease in the foreign exchange component due to the Canadian embargo and the consequent indigenisation, the Indian component of the expenditure had registered an increase of more than 100 per cent. Bulk of the increase was under Reactor Boiler System, Electrical Power System, Turbine Generator System, Instrumentation and Control System etc., which was attributed to changes in design and scope and additional facilities. Even expenditure under commissioning, common services, housing, consultancy was not correctly estimated. In all, they constituted inadequacies in planning of the projects rather than wages of development of indigenous technology. The bold vision in drawing up the profiles of growth of nuclear energy faded beyond recognition in the final picture that emerged at the end of the decade. History repeated itself in the sense that the reasons for the delay in setting up RAPP - changes in design, receipt of major equipments, insufficient supply of cement, need for deeper foundation etc., re-emerged in the execution of MAPP also, which exposed insufficient planning and designing and inhouse failures.

Two cases of delays cited in the review relating to construction of Reactors and Turbine Buildings and installation of Main Piping Systems looked like case studies torn out of the history of projects implemented in the first decade of industrial planning in the country. As per the contract for construction of Reactors and Turbine Buildings awarded in February 1970 for MAPP I at a cost of Rs. 168 lakhs and II in June 1971 at a cost of Rs. 156 lakhs, they were to be completed in 35 months but they were completed after a delay of 74 months (April 1979) and 107 months (May 1983) respectively. Major items of equipments had not been received from suppliers for Unit I even in December 1976 and for II till March 1977. Various items of work like closure of break out panels, opening in the perimeter walls and insulation over the domes for both the units remained to be completed. The cost escalation was of the order of Rs. 70 lakhs for MAPP I and Rs. 42.60 lakhs for II. The reasons for delay advanced by the DAE - deeper foundation and extra dewatering, changes in the design of the dome, increase in the quantum of cement work, insufficient supply of cement and delay in receipt of major equipments etc., indicated insufficient planning and designing and inhouse failures. The work of installation of Main Piping System entrusted to the same sets of contractors for Rs. 181.43 lakhs (MAPP I) and Rs. 161.99 lakhs (MAPP II) to be completed in 33 months (June 1976 and March 1978) were actually completed in June 1982 and June 1985 - after a delay of 71 months and 86 months at a cost of Rs. 244.74 and Rs. 241.10 lakhs. Time and cost over-runs were attributed to delay in making available terminal points and work areas, in supplying valves and equipments, additional items, dismantling of some completed pipeline supports and equipments, faulty drawings and re-doing of work and faulty material/equipments supplied to contractor which were traceable to defective planning in pre-construction phase and inhouse failures. Apparently, these were only symptomatic of the chronic disease that afflicted the project in its long construction phase.

As a result of the long slippages in time schedules of the projects, certain facilities/systems, which had come up earlier in relation to the ultimate schedule had, perforce, to be maintained indefinitely at enormous cost - 16 months' slippage in commissioning alone caused avoidable expenditure in cost to the tune of Rs. 48.82 lakhs. Although the indigenous production of heavy water was expected to outstrip the requirements of nuclear power plant by 1979, after the commissioning of four heavy water plants in 1973-74 at Kota, Baroda, Tuticorin and Talcher (in addition to Nangal Plant already functioning since 1962), there was delay of 4 to 6 years in their commissioning and becoming functional. MAPP I, though ready to receive the heavy water in December 1981 had to wait for 16 months for commissioning, which resulted in denial of 1447 million units of energy to the grid and an avoidable revenue loss of Rs. 56.42 crores. To call it notional after the inevitable delay was adding insult to injury.

MAPP I became critical on 2nd July, 1983 and synchronised with the grid on 23rd July, 1983 and started commercial operation on 27th January, 1984. Interim power generated was 245 MU and sold 203 MU realising Rs. 5.45 crores. In all, 2566 MU was generated upto March 1986 and 2236 MU was sold realising Rs. 91.62 crores. The gross power generation targeted was 1150 MU and 1250 MU during 1984-85 and 1985-86, and the actuals were 1071 MU and 1292 MU respectively. The plant load factor was only 51.45 per cent in 1984-85 and 60.95 per cent for 1985-86, against the norm of 62.78 per cent, due to fixation of lower targets in the initial period. The actual shut-down was around 5461 manhours during 1983-84, 5214 manhours during 1984-85 and 4252 manhours in 1985-86, against 56 manhours of annual shut-down assumed by the administrators. The extra outages were 1263 hours and 782 hours during 1984-85 and 1985-86, resulting in loss in generation of power of 275 million units - a revenue loss of about Rs. 11 crores. MAPP II reached criticality on 12th August, 1985 and went into commercial operation on 21st March, 1986. 403 MU including infirm power was generated and 335 MU was sold at 32 p/kwh realising Rs. 10.62 crores. 43.03 MU was generated during 1985-86, 35 MU was sold at provisional rate of 43.3 paise per unit, earning Rs. 1.53 crores only. The gross generation was 446 MU, against the targeted 420 MU.

As against the estimated cost of 6.58 paise per unit and sale price of 8.59 paise per unit in 1971, the cost of generation for 1984-85 was calculated to be 39 paise, of which the cost of fuel and heavy water was 16.16 paise (norm 14.78 paise). But for the depressed calculation, based on reduced interest during construction reckoned at 60 per cent of the fixed assets, the cost of generation would have worked out to 43.7 paise per unit at 60 per cent capacity factor. Return of 12 per cent should contribute 26.48 paise, instead of 15.88 paise in the norm. Adequate provision for decommissioning, major repairs/capital repairs, disaster management and waste management would have to be made before long, if the experience of developed countries in operating nuclear power plants was reckoned, which would add up to the ultimate tariff. The generation cost per unit, even excluding extra provisions, was 59.56 paise in 1983-84 and 55.11 paise in 1984-85, as per the proforma accounts of respective years. The charge of 39 paise to Tamil Nadu Electricity Board could fetch a return of 3.5 per cent only and even at the reckoned cost of generation of the project authorities, only 5 per cent return was realisable. Still, the DAE was confident that cost of generation ensured 12 per cent return, if targeted output was achieved and the actual return would depend on performance during relevant period. Thus, the third nuclear project has taken almost a decade and double the estimated initial capital cost, which belied the fond hopes of bearable capital and related costs at lesser time span, as compared to conventional system in the country - thermal, hydel, oil fired. Neither the experiences gained in setting the two earlier projects nor the back-up of the industrial development of the last few decades have helped to reduce the time and cost in setting up the project. The performance has not been total as envisaged nor the cost of power generated competitive to the cost of electricity produced in the neighbourhood.

AUDIT REPORT - 1986-87*

A separate Audit Report containing 29 paragraphs including one review, was issued and all the paras were replied to by the Department/Ministry. The report high.lighted the following :

Heavy Water Plant, Tuticorin : Heavy Water Plant, Tuticorin (THWP), the most successful amongst the operational heavy water plants, produced about 60 per cent of the indigenous heavy water. Yet, its average annual production was only 20 per cent of the rated capacity. The Estimates Committee (1983-84) in their 82nd Report (Seventh Lok Sabha) commented upon the poor performance. Subsequently additional investments, change in strategy of production, repairs, etc. were undertaken. But the annual production did not even reach the derated capacity. The cost of production remained high because the total project investment was more than doubled while average production hovered around 20 per cent. Additionally, running costs were high due to price variance, quantity variance of direct materials and labour. The

* No. 7 of 1988 on Union Government (Scientific Departments) signed by Shri S. Sathyamoorthy, countersigned by Shri T.N. Chaturvedi on 9th March, 1988 and presented to Parliament on 25th April, 1988.

manpower employed was about 13 times more than that envisaged in the project report. In sum, the imported technology had not been successful but the foreign collaborator had been absolved of all contractual obligations. No proforma accounts were prepared in the last 8 years.

(ii) Research Reactor, Dhruva : Research Reactor, Dhruva was indigenously built and commissioned by the Bhaba Atomic Research Centre in about 13 years at a cost of Rs. 107.85 crores. There were avoidable delays in various sectors and also the cost went up by Rs. 31.55 crores including the cost of heavy water. Soon after commissioning, the reactor had to be shut-down due to vibrational problems resulting in loss of heavy water and replacement of fuel rods. Further, power output of the reactor was below the rated capacity, leading to non-fulfilment of objectives and facilities for engineering, basic research and isotope production remaining to be fully established.

(iii) National Silicon Facility : The Department of Electronics assessed the demand for Poly-silicon to be 200 tonnes per annum by 1990 and decided in favour of foreign collaboration without calling for global tenders when indigenous technology was emerging. The total project cost was indicated as Rs. 90.75 crores with a foreign exchange component of Rs. 23 crores. Even before the collaboration agreement was confirmed, it was indicated that the project cost was high and the demand for silicon would decline due to the emergence of alternative technologies etc. However, the agreement was confirmed and Rs. 7.92 crores were paid towards know-how fee, etc. Finally, when an Experts' Committee was appointed, it was observed that indigenous technology had come of age and demand for Poly-silicon was over-estimated. The Committee recommended adoption of indigenous technology. Ultimately the contract was annulled and the technology which was imported did not benefit the country.

(iv) Productionising Product 'X' : A critical Product X required for Polaris Satellite Launch Vehicle Programme was developed successfully in the laboratory by the Department of Space. In converting it into an industrial product, the pilot plant stage was skipped to save time. But technology and process difficulties were encountered leading to loss of five years. The Indian collaborator obtained Rs. 65 lakhs but could not develop the product. Ultimately import was resorted to. Subsequently, the Department entered into another contract with another collaborator for productionising a second laboratory process for the same product. In this case, a pilot plant was established and also the collaborator was asked to invest its money, thereby ensuring its commitment to the

development of the product. By forgoing pilot plant and investment by the collaborator in the first instance the Department incurred infructuous expenditure of Rs. 65 lakhs and lost five years.

(v) Rocket Sled Facility : Department of Space approved establishment of dynamic test facility in 1971 to be commissioned in 1974. However, due to budgetary constraints its immediate need and utility were sought to be reviewed through an Experts' Committee. The Committee was to submit its report in 4 weeks. But on the very next day of the appointment of the Committee, special steel worth Rs. 9.27 lakhs was ordered which foreclosed deliberations of the Committee. One year after the ordering of steel, the Department decided that no further expenditure on this facility should be incurred because of budgetary constaints and redeployed the staff. The facility was not established even after a lapse of 12 years but the Department reiterated that the facility had not been abandoned but only postponed. On the other hand, the Department also stated that in the context of evolving technology, more reliable testing facilities were to be adopted. In all, the infructuous expenditure was Rs. 9.44 lakhs and idle investment was Rs. 4.72 lakhs.

(vi) Poor utilisation of sub-standard research vessel : Central Marine Fisheries Research Institute, Cochin, a constituent unit of Indian Council of Agricultural Research (ICAR), acquired a research vessel in December 1982 from an Indian shipyard at a cost of Rs. 170.28 lakhs. Due to design and equipment defects, the vessel operated for only 444 days since the time of acquisition. During this period, Rs. 43.33 lakhs had been spent on repairs and maintenance. It was recognised subsequently that it was uneconomical to maintain and run the vessel. Due to poor utilisation, no significant achievement on research front was possible; anticipated benefits out of the investment did not accrue to the Institute.

(vii) Non-installation of expensive imported equipment : The Bose Institute, Calcutta, a grantee institution under the Department of Science and Technology, imported four scientific equipments worth Rs. 80.20 lakhs but could not install any of them for periods ranging from 2 to 7-1/2 years for want of infrastructural facilities. Some of the equipments were rusted and became defective. Inadequate pre-planning had resulted in blockage of funds, avoidable expenditure and lapse of warranty period. Even obsolescence of the equipments was indicated.

(viii) Pilot Production of magnesium : National Metallurgical Laboratory, Jamshedpur, a constituent unit of Council of Scientific and Industrial Research (CSIR), commissioned a pilot plant for producing 200 tonnes

of magnesium per annum in February 1972. Till March 1985 it had produced only 238.36 tonnes and was in suspended animation since then. The production had declined to 5 tonnes per annum in the last five years preceding the suspended animation. 121 persons continued to be employed and the recurring expenditure on an average was Rs. 39.66 lakhs per annum. The total infructuous expenditure till March 1987 was Rs. 442.24 lakhs, besides idle investments of Rs. 114.15 lakhs. Since it was outside the by-laws of CSIR to run or manage a regular production unit, attempts were made to transfer the know-how to a public/private sector agency from 1975. These were not successful because the cost of production was very high.

(ix) Other points : The Department of Electronics released in November 1984 a grant of Rs. 8.50 lakhs to Agra University for conducting a diploma course in Computer Application in Hindi medium. The programme was not monitored and after two and a half years, in June 1987 it was ascertained that the course could not be started for want of teachers. The Department of Space sent an engineer abroad and created facilities for manufacture of teflon bladders. Quality bladders could not be produced for want of additional facilities and import was resorted to at a cost of Rs. 15.60 lakhs after incurring an expenditure of Rs. 2.34 lakhs on creating the facilities. The Central Marine Fisheries Research Institute, Cochin of the Indian Council of Agricultural Research purchased Agar Agar plant from the State Government of Tamil Nadu under its 'Lab to Land' programme. The plant had been lying idle with the State Government for 13 years. After purchase, the plant remained idle with the Institute for another 7 years. In response to an Audit enquiry, it was stated that the plant which had remained idle for 20 years, would now be transferred to another Institute. The Directorate of Oil Seeds Research, Hyderabad a constituent unit of Indian Council of Agricultural Research purchased a movie camera in March 1985 at a cost of Rs. 3.21 lakhs. The films required for the camera could not be purchased as the import of the films had been stopped in 1984. The movie camera remained idle for the last 2-1/2 years. In response to an Audit enquiry, it was stated that the movie camera was being transferred to Films Division, Government of India.

AUDIT REPORT 1987-88*

The Report contained 52 paragraphs including 2 reviews and the responsiveness of the Departments/Ministries was 90 per cent.

* No.7 of 1989 on Union Government (Scientific Departments) signed by Shri S. Satyamoorthy, countersigned by Shri T.N. Chaturvedi on 17th March, 1989 and presented to Parliament on 24th March, 1989.

(i) Narora Atomic Power Project : Narora Atomic Power Project consisting of two units of 235 MWe each was sanctioned in 1974 at a cost of Rs. 209.89 crores with date of criticality as December 1981 and December 1982. Till December 1988, neither of the units had reached criticality. Rs. 487.36 crores had already been spent by March 1988 and a proposal to revise the project cost to Rs. 532.84 crores was pending. The time and cost overruns were attributed to continuous upgrading in systems design to cater to seismic conditions and safety, consequential delay in construction activities stretched upto 43 months and cost overruns upto Rs. 400 lakhs in individual cases. There was no dynamic monitoring resulting in tail end facilities coming up earlier; also equipments like chiller units, cranes, etc. were acquired ahead of requirements. A random check of purchase orders revealed substantial delay in placement of purchase orders. Performance budgets failed to take cognisance of previous performances and annual reports were inaccurate. In sum, though the seismic conditions of the site were known at project formulation stage, which called for special designs for equipments and buildings, optimistic time schedules were drawn up. Projected project cost estimations proved inadequate.

(ii) Heavy Water Plant, Baroda : In attempting to acquire the technology of heavy water production, Heavy Water Plant, Baroda (BHWP) was approved as the twin plant of the Tuticorin Heavy Water Plant. The plant was due to be commissioned in 1973 at a cost of Rs. 15.09 crores but was commissioned in July 1977 with actual production commencing in November 1977. The total cost was Rs. 33.87 crores. Thus, the time overrun was 53 months and cost over run Rs. 18.78 crores. After an explosion, the plant was shut down and restarted in January 1980. The Estimates Committee (1983-84) in their 82nd Report (7th Lok Sabha) commented upon poor perormance of BHWP. Subsequently, additional investments, change in strategy of production, repairs, etc. were undertaken. But the annual production did not reach the rated capacity. The cost of production was in excess of Rs. 6886 per kg. as against the projected cost of Rs. 478 per kg. and revised cost of Rs. 1023 per kg. The cost of production was high because the total project investment had more than doubled while the annual average production was less than 30 per cent of the capacity. Additionally, running costs were high due to price variance, quantity variance of energy consumed, undetected ammonia leakage etc. However, the foreign collaborator had been absolved of all contractual obligations, though the BHWP faced equipments failures, delays in supply of equipments, fire and explosion. No proforma accounts were prepared during the last 8 years. Irregular

expenditure of Rs. 63.56 lakhs was incurred in taking insurance cover for the Thal Vaishet Heavy Water Project.

(iii) Uninstalled Computers : National Informatics Centre imported ND-550 Computer system in September 1986 at a cost of Rs. 49 lakhs for the Calcutta Centre of National Informatics Computer Network and stored it till June 1988 incurring an expenditure of Rs. 2.40 lakhs. Another computer system acquired by the India Meteorology Department at a cost of Rs. 26.38 lakhs for their New Delhi Centre in June 1983, remained to be installed.

(iv) Excess Release of Funds : Rs. 66.32 lakhs were released in excess by the Department of Bio-Technology for establishing National Animal Tissue Culture Facility in March 1986 and the excess amount was diverted as deposit to a nationalised bank.

(v) Faulty Facsimile Recorders and deficient contract : Five facsimile recorders imported by India Meteorology Department contracted in July 1980 at a cost of Rs. 13.67 lakhs were lying idle for want of spare parts and the supplier discontinued production of the model. 326 rolls of imported dry silver paper costing Rs. 9.70 lakhs were lying idle because of the defective equipment.

(vi) Ammonium Perchlorate Plant : Ammonium Perchlorate Plant approved in May 1975 at a cost of Rs. 84.38 lakhs with gestation period of 24 months became operational in February 1979 with a delay of 20 months and capital cost of Rs. 95.92 lakhs. Since the rated capacity of 150 tonnes per annum could not be reached, additional capital expenditure amounting to Rs. 62.94 lakhs became necessary. Complete details of capital or operational expenditure were not available. The cost of production was Rs. 62.69 per kilogram as against the projected cost of Rs. 15.35 and market price of Rs. 34.87 per kilogram. The plant also faced problems of environmental pollution which was subsequently set right. Rated capacity was achieved after 12 years with major changes in equipments, processes, anode characters etc.

(vii) Gas Liquid Chromatograph : Central Rice Research Institute imported a Gas Liquid Chromatograph in March 1977 at a cost of Rs. 1.27 lakhs. Due to delay in procurement of compressor, the installation was postponed till September 1979. Two more attempts at installation in January 1981 and March 1984 failed. A legal notice was issued to the supplier in October 1986 and in September 1988 a case was also filed.

(viii) Twenty year programme for Animal House : In November 1967, the National Institute of Virology acquired land for constructing an animal

house and staff quarters. By February 1971, NIV developed second thoughts about the need for animal house and enquired whether the land could be surrendered. In July 1971, instructions were received that the land should not be surrendered. As an alternative use, a Diagnostic Reagent Laboratory was approved but before it could be suitably financed the allotment had lapsed. Detailed drawings and estimates for this purpose were actually prepared after 20 years.

(ix) Delay in a Thrust Area Project : The National Metallurgical Laboratory ordered for Agitair type floatation cells and thickener with accessories at a cost of Rs. 10.55 lakhs for augmenting and modernising mineral beneficiation facilities. The cells arrived by December 1982 and thickener by February 1983. These equipments were not installed since the processing sheds were still under construction. Six other major equipments also remained to be purchased. Piecemeal purchases and uncoordinated construction had stretched installation of a thrust area project beyond 8 years.

(x) Micro-electronics Laboratory : Accepting a proposal of a scientist for establishing a Micro-electronics laboratory, highly sophisticated instruments were imported at a cost of Rs. 1.02 crores. Within two months thereafter, the scientist desired to discontinue his services. The scientist was granted leave for ten months and was counter-offered posting in a different institute. However, no action was taken to redirect the equipments. Equipments received in June 1987 were redirected in August 1987 when the scientist joined his job. Till September 1988, the equipments had not been completely installed.

(xi) Other points : Avoidable expenditure of Rs. 41.09 lakhs on security, superfluous inspection clause resulting in delayed despatch of spares and limiting the scope of a research equipment, payment by Indian Agricultural Research Institute of Rs. 7.57 lakhs as electricity charges for defunct connections and payment of Rs. 7.10 lakhs as water charges during the period May 1981 to September 1984 and their non-adjustment, uncoordinated construction of a pilot plant shed causing idle investment of Rs. 24.28 lakhs for varying periods, delay in collection of water cess amounting to Rs. 1.32 crores by the Central Board for Prevention and Control of Water Pollution for want of a regular Member Secretary and non-availability of manpower for main taining complete records, idle equipment for want of a laboratory, non-monitoring of remittances of Rs. 91.65 lakhs and construction of an auditorium with wrong architectural plans were the other points.

PAC's RECOMMENDATIONS

The PAC examined two of the six reviews included in three Audit Reports, namely Madras Atomic Power Project and Heavy Water Plant, Tuticorin and two individual paras on Research Reactor, Dhruva and National Silicon Facility - Unfruitful expenditure in import of documents for a technology not in use. Both the coverage and compass of its recommendations indicated the Committee's interest in the audit findings in the sphere of scince and technology.

(i) The Committee made* 26 recommendations in respect of the review on MAPP. According to the Committee the AEC while envisaging targets of nuclear power generation in 1968, had neither fully anticipated the time and effort required for establishing a nuclear power station nor taken into consideration the realities of the industrial situation prevailing in the country, with the result that targets of nuclear power generation continued to remain elusive. The Government was expected to give thrust to the achievement of the current nuclear profile of the Department of Atomic Energy which aimed at attaining 10,000 MWe of power by 2000 AD, keeping in view the experience gained in constructing nuclear power stations and also by making a realistic assessment of indigenous industrial capabilities of the quality required to supply nuclear components for future reactors of different capacities so that the limited plan resources committed on this programme might yield timely benefits to the economy in the vital power sector. The Department of Atomic Energy overestimated the industrial capability and infrastructure available in the country and was to draw a lesson from this experience and take adequate precautions in future. The Department of Atomic Energy could not prepare realistic project estimates in case of both the units of Madras Atomic Power Project and in their anxiety to embark on the Madras Atomic Power Project, it commenced the work without taking proper preparatory measures. The Committee suggested that the Department of Atomic Energy should develop proper organisation and methodology for estimating the capabilities and scrutinising the claims of the indigenous manufacturers. Proper planning was not made at the pre-construction stage and the project was beset with problems right from the beginning due to inadequate investigations at site, changes and modifications in design during construction and the delayed delivery of various equipments/items by the indigenous manufacturers with the result that there were heavy overruns of both time and cost. The Department was to ensure in future that proper and adequate geological

* 162nd Report (1988-89) Eighth Lok Sabha presented on 27th April, 1989.

investigations of the project sites were made before submitting the project reports to the Government for approval. The Department was also to keep itself abreast of the advancements and the latest developments in the field of nuclear technology in the world over with a view to taking these into account at the project formulation stage, so that design changes and modifications during the execution of the project might be kept to the barest minimum and that too in the light of subsequent developments, if any. The Committee were convinced that while the pre-project planning in this case needed thorough acquaintance with the Indian industrial scene, no earnest and systematic effort was made in this regard with the result that the indigenous industries failed to deliver the goods in time. It was obvious that there was deficiency in comprehensive planning of the project and the delayed delivery of this item revealed in-house failure. The Department was expected to do introspection with a view to obviate repetitions of the experience of this project in future. The heavy water crunch for the project would not have arisen had the Department taken timely measures in developing technical know-how for heavy water up-grading plants. The planning on heavy water front was not done with adequate care with the result that the time schedule of the MAPP was affected adversely. The Department was required to evolve a suitable strategy to prevent deficiencies in the programme for indigenous production of heavy water with a view to avoiding slippages in the future nuclear power projects. While deprecating the expenditure incurred on the project due to stretch in schedule, the Committee emphasised the need for realistic planning at the project formulation stage so as to leave little scope for cost escalations on account of subsequent design changes and new works. The Department was to examine the prospects of claiming compensation from the manufacturers of critical nuclear components, be they come from public sector, for the supply of defective components by them so that the poor consumer was not made to pay for the failure of the manufacturers in such a vital sector as power and that effective steps were taken to get these defects rectified at the earliest so as to avoid the forced and unplanned outages resulting in loss of generation of power and consequential revenue losses. Effective and timely steps were to be taken to get over the mechanical and operational problems of this power station with a view to improving its performance so that the desirable rate of return on capital investment might be ensured in future. The present rates of lease charges reported to be under review were to be revised suitably taking into consideration the interest rates applicable etc. expeditiously and realistic lease charges prescribed so that the nuclear power costs were not made artificially lower whatever be the price charged on other than economic considerations. The provision for major repairs was to be incorporated in the cost of generation of power. It was financially improper not to include the waste fuel costs in computing the power tariff on the basis of certain assumptions and this aspect might be examined in detail so as to avoid any loss of revenue to Government exchequer in future. The system adopted to modify the accounting principles to meet a particular tariff was not approved by the Committee. While the accounts might be allowed to present a true and fair state of affairs, the extent of reduction allowed in tariff with reference to operational cost was to be clearly exhibited as a subsidy consciously allowed. The Government was to examine the feasibility of introducing technical audit in the scientific Departments with a view to getting the performance of such Departments evaluated in all respects and to inform the Committee of the action taken in this regard. The Committee found that the stores procedure was not properly followed which resulted in blocking of capital. The Department was to pin-point responsibility in these specific cases and apprise the Committee of the action taken in this regard.

(ii) The Committee made* 18 observations and recommendations in respect of the review on Heavy Water Plant, Tuticorin. The Committee viewed with great concern the delay of 42-1/2 months in completion of the project, which was initially planned to take 44 months and strongly deprecated the enormous time over-runs. As such delays in similar other projects could completely throw out of gear the plan to reach a capacity of 10,000 MWe of nuclear power by 2000 A.D., the Committee recommended that for executing projects of this type an appropriate body (such as Steering Committee) may be constituted to ensure meticulous co-ordination with different authorities, advance planning combined with careful anticipation of the possible impediments. Persistent failures of HWPT in achieving reduced production targets were disappointing as it resulted in non-achievement of even derated capacity. The Committee strongly felt that an exercise should have been under taken to identify the problems likely to be faced in the manufacture of the various items and timely solution thereof devised at the planning stage itself. The planning should have been done after carefully considering and taking into account all possible impediments. Expenditure was incurred over and above the sanctioned cost for several years without sanction of the competent authority and the Committee strongly deprecated the practice of unauthorised expenditure of such magnitude which was moreover incurred over several years without any concern whatsoever for observing the barest norm of regularity and

* 169th Report (1988-89) Eighth Lok Sabha presented on 28th April, 1989.

discipline. Government was called upon to ensure observance of strict financial discipline by insisting on preparation of realistic estimates of project costs, control of expenditure within the estimated cost and timely revision wherever necessary. It took strong exception to the fact that even in respect of foreign exchange component, the Department incurred substantial expenditure to the extent of over Rs. 12 crores without getting the advance sanction of the competent authority, recorded its displeasure and recommended that the Government should issue instructions to the effect that revision of estimates, wherever necessary, should be made and sanction of the competent authority obtained well in time. The Committee also recorded its strong displeasure at the cavalier attitude of the DAE towards maintenance of proper accounts and towards its accountability to Parliament. It emphasized that in respect of projects involving foreign collaboration, meticulous care must be taken in drawing the time schedule after taking into account the local conditions in a proper perspective. Such casual assessment of costs at the initial planning stage and subsequent upward revision on considerations that were very much valid when the project was cleared were deprecated. A project of such magnitude was started on assumed levels of performance without proper scientific analysis, was a matter of concern. It pointed out that the Government should draw adequate lessons from their experience in this case and ensure that planning of such costly projects was not done in such a slipshod fashion which made for failure and constituted big drainage of public money. The different figures of cost of production of heavy water at Tuticorin as shown by the DAE led to the cost of Rs. 4120 per kg. According to Audit, the cost was found to be as high a figure as Rs. 13,800 per kg., based on actual expenditure and production. The Committee considered the inability of the DAE to substantiate their own figure of per kg. cost of production as another instance of lack of proper accounting procedure which in turn was due to their disregard to accountability and strongly deprecated such attitude. The Committee desired that appropriate details in this regard, duly vetted by Audit should be furnished to it. It was essential that for each year appropriate proforma accounts on commercial principles should be compiled. The department's claim based on secrecy or sensitivity was considered to be a way of evading accountability by escaping scrutiny of audit and of this Committee under the guise of sensitivity, public interest etc. The issue was to be reviewed and, in case the DAE did not agree to the stand, the matter might be referred to the Ministry of Finance for an examination of the issue and issue of appropriate instructions udner intimation to the Committee. This was held an interim report to be finalised after the relevant cost data were made available to the Committee.

(iii) The PAC made* 21 observations/recommendations in respect of the para on Research Reactor, Dhruva. According to the Committee, the Department did not bestow proper care and attention on planning the project even in 1977, when the dates of completion of various activities for commissioning the reactor by December 1981 were revised. Proper analysis of the progress of woik at the time of revising the date of commissioning of the reactor in 1977 was not done as was borne out by the fact that there were substantial delays even against the revised target dates in completion of both the civil works and the manufacture of nuclear equipment for the project. The work on the project was undertaken in a casual manner and the project languished for want of coordination among various project authorities involved in its execution. The Committee desired that DAE would draw procedures for working out the details of the projects to be taken in hand, well in advance by ensuring proper coordination among the project authorities so as to obviate delays in the execution of the projects due to in-house failures. The Department was required to pay serious attention towards this aspect and also to ensure in future that adequate geological investigations of the project sites were made at the pre-construction stages. The Department must draw up a realistic time bound package for such activities having due regard to the existing technological competence so that the project schedules might not go away subsequently. The committee regretted that the Department did not take adequate care to safeguard the interests of the Government at the time of entering into contract with the piping contractor and expressed their unhappiness over the failure of the Department in completing the project within the stipulated time frame. Despite the various reasons and explanations offered for the increase in project cost, the Committee considered that much of the escalation was due to project planning being faulty and without perspective. It was clear that the additional new requirements reflected nothing but a case of poor planning on the part of the project authorities. In the opinion of the Committee, this resulted in substantial increases in the quantities of work required to be done with consequent increases in cost and delay in execution of the project. The present case was found to be indicative of the casual approach displayed by the Department in preparing the project estimates. The Committee emphasised that the Department should be more cautious in preparing and processing the project estimates. Clearly, there was lack of financial discipline and vigilance on the part of the Department. The revised sanction for Rs. 107.88 crores was accorded only in May 1988 i.e. after

* 163rd Report (1988-89) Eighth Lok Sabha, presented on 28th April, 1989.

three years of the incurring of excess expenditure, obviously when the audit observations were made known to the Department, and taking a serious view, the Committee desired that responsibility should be fixed for budgetary irregularities committed in this regard. It took the Department two years to remove the defects and achieve the desired power level with the result that the facility could not be utilised for about two years. The Committee hoped that concerted efforts would be made to keep the closure of the reactor to the barest minimum and full advantage would be taken of the reactor.

The Committee examined* the para on National Silicon facility and found many disquieting aspects in the whole deal from the very start and deprecated the manner in which the task force set up by the Department of Electronics was made defunct before it could carry out the functions allotted to it and transferring the balance functions to another body constituted by Government. The wrong choices of both the product as well as nodal department caused a set back of perhaps, a decade of the solar energy programme in an energy deficient country like ours. The decision of the DOE to ignore the reservation of the DNES and obtain Government approval for setting up of the facility on the basis of inflated demand projections remained totally unjustified and deplored the lacadaisical way in which the entire issue was handled after irgnoring valid objections and timely advice of the DNES. The DOE should act promptly in building up adequate wafer production facilities expeditiously to enable indigenous industry to maximise the capacity utilisation for production of polysilicon. Various acts of negligence on the part of the DOE were inexplicable. The inept handling and lack of perception of emerging scenario in photovoltaic (PV) cell technology and its economics on the part of the DOE was criticised as also the transgression into the domain of another department resulting in sad consequences for the country and liked to be apprised of the grounds on which valid points raised by the DNES and other eminent scientists/organisations working in this sphere were set aside. The Committee commended the efforts of the DNES in saving the country from the loss that would have been suffered by setting up the Rs. 90 crores project, which was not required at all and would have become obsolete soon after commissioning. The Committee was shocked to note the manner in which the Secretaries Committee cleared the project for import of Hemlock technology and was misled by the exaggerated demand projected by the DOE and failed to appreciate the latest

* 155th Report (1988-89) Eighth Lok Sabha, presented on 28th April, 1989.

developments in the indigenous technology as well as emerging amorphous technology. Non-disposal of the objections raised by the Indian Institute of Science, Bangalore and Mettur Chemicals and several other organisations in their communications to DOE was considered unfortunate and the Committee desired to know the reasons as to why specific notice of these eminent organisations and persons was not taken. While expressing surprise in not floating global tenders for technology transfer, it criticised the action of the DOE for setting up the project rather than exploring the other cheap product that were available including indigenous development of technology. The Committee desired that suitable methodology should be evolved to ensure that relevant and authentic data and information are not ignored in taking investment decision particularly those involving huge sums like the NSF. The committee took serious note of the unusually long time taken by the DOE to terminate the collaboration agreement with the Hemlock corporation necessitating avoidable expenditure and recommended action to be taken against those responsible. The denial of certain Reports called for by the Committee was adversely commented upon, which prevented them from bringing out the truth and serving the larger public interest.

The Audit Report and the Report of the PAC received good media attention, despite the age of the contents of the former, in line with media coverage usually given to the Reports of the CAG in this country.

LIST OF ABBREVIATIONS

1.	Ar.Gl	— Auditor General
2.	As.G	— Accountants General
3.	A.G.	— Accountant General
4.	AGCR	— Accountant General, Central Revenues
5.	AEC	— Atomic Energy Commission
6.	A.O.	— Audit Officer
7.	BARC	— Bhaba Atomic Research Centre
8.	BHWP	— Heavy Water Plant Baroda
9.	CAG	— Comptroller and Auditor General
10.	CSIR	— Council of Scientific and Industrial Research
11.	DAI	— Deputy Comptroller and Auditor General
12.	DA	— Director of Audit
13.	DAA, P&T	— Director of Audit and Accounts, Posts and Telegraphs
14.	DAE	— Department of Atomic Energy
15.	DOE	— Department of Electronics
16.	DNES	— Department of Non-Conventional Energy Sources
17.	GM	— General Manager
18.	ISRO	— India Space Research Organisation
19.	IAAD	— Indian Audit and Accounts Department
20.	MAPP	— Madras Atomic Power Project
21.	MAPS	— Madras Atomic Power Station
22.	MWe	— Mega Watt energy
23.	MU	— Million Units
24.	NSF	— National Silicon Factory
25.	OM	— Office Memorandum
26.	PAO	— Pay and Accounts Officer
27.	PAs	— Personal Assistants
28.	PRL	— Physical Research Laboratory
29.	PAC	— Public Accounts Committee
30.	RAPS	— Rajasthan Atomic Power Station
31.	RAO	— Resident Audit Officer
32.	Sr.DAG	— Senior Deputy Accountant General
33.	SGArs/Ars	— Selection Grade Auditors/Auditors
34.	SO	— Section Officer
35.	S&C Departments	— Scientific and Commercial Departments
36.	SW&T	— Science and Technology
37.	TAPS	— Trombay Atomic Power Station
38.	THWP	— Heavy Water Project, Tuticorin
39.	TA	— Travelling Allowance
40.	USA	— United States of America
41.	UK	— United Kingdom

SOURCES AND REFERENCES

1. Nuclear Profile, 1970-80
2. Nuclear Profile, 1980-90
3. Audit Report (Civil) - Union Government, 1967, 1968, 1985-86
4. Supplementary Audit Report (Civil) - Union Government, 1985-86
5. Audit Report - Union Government, (Scientific Departments), No. 7 of 1988 and No. 7 of 1989
6. PAC Reports
   155th Report (1988-89)
   162nd Report (1988-89)
   163rd Report (1988-89)
   169th Report (1988-89)

25 Accountants General, Central, Calcutta & Bombay

ACCOUNTANT GENERAL (CENTRAL)-CALCUTTA

The Office of the Accountant General (Central), Calcutta was formed in January 1968 for accounting and audit of transactions of the Union Government arising in West Bengal Circle, other than those which fell under the accounting and audit jurisdiction of the then AG, CWM, and the Calcutta Port Trust. Shri S.C. Banerjee was the first AG, who was assisted by one Sr. DAG and 3 DAsG. The strength of the newly formed office was 859 - 5 IAAS officers, 20 AOs, 91 SAS accountants, 504 auditors/SG auditors, 123 clerks, 6 stenos, 6 other class III and 104 class IV. Since then, 15 officers had held the charge of AG/DA, the maximum tenure being 37 months, held by Shri S.C. Banerjee. At present, the office is situated in six different locations. The work was organised departmentally and distribution of work among the AG and group officers was as under:-

AG (CENTRAL) CALCUTTA

Direct-charge of A.G.	Sr.DAG (Works)	DAG (Admn.)	DAG(RA)	DAG (TAD)
Appropriation Accounts and Audit	-WAD (including PW Inspection Parties).	-Office Admn	-Revenue Audit	-TAD including TM
Report	-RAPs of Irrigation Projects	-Records	-Pension	-Book/Budget
ECPA	-Farakka Barrage	-Account		-Deposit
ITA	-OAD (Civil) -Port Trust, Calcutta.	-GAD		-P.F.
(4 Sections)	(24 Sections/ Parties)	(13 Sections)	(27 Sections/ Parties)	(24 Sections)

A branch office under the supervision of DAG was formed in May 1971 at Port Blair to look after the accounting and audit of transactions of Andaman and Nicobar Islands, which had a total strength of 61, distributed over 4 sections including 3 officers at Headquarters -

Accounts, Admn. (including Fund and GAD), TAD and Pension (including Record) and OAD (HQ) and one field party.

The office regulated the claims of about 4000 gazetted officers; maintained provident fund accounts of 27,407 subscribers; and finalised about 248 pension cases, in 1968-69. In the next seven years, the gazetted entitlement and provident fund accounting work almost doubled, and the number of sections increased to 9. The PF accounts increased to 43010, excluding 5300 maintained at Port Blair. Pension work increased by about 71%. The increase during 1974-75 and 1976-77 was phenomenal, which was of the order of 184% and 355%. The accounting sections increased - Treasury Compilation sections from 3 to 7, Account Current sections from 3 to 5 and Book/Budget sections from 1 to 3. After the enactment of CAG's (DPC) Act, 1971, intensification of Receipt Audit and audit of autonomous bodies/institutions expanded. A special cell was constituted to identify the autonomous bodies and institutions attracted by the Act. 15 bodies/institutions were taken up for audit under Sections 19 and 20 of the Act. The bodies covered by Sections 14/15 increased to 24 by 1976. The accounting and audit of transactions of Sikkim State Government was entrusted to the office by the end of 1975. The strength of the office was 943 in 1969 1277 in 1972 and 1593 in 1975 (88 officers and 1505 class III and IV). The expenditure of the office was Rs. 1.58 crores.

DIRECTOR OF AUDIT, CENTRAL

The accounting and entitlement work of Union Government was transferred to the Departments in 1976 along with the personnel engaged on the work (12 AOs, 48 SOs, 331 auditors, 92 clerks, 5 stenos and 26 group 'D') and the strength of the office decreased to 1079. The strength rose to 1170 in March 1978 - 91 officers and 1079 class III and IV and expenditure of the office in 1977-78 was Rs. 1.10 crores. The office was designated as Director of Audit from the year 1979.

AUDIT OF DIRECT TAXES

The receipts from Direct Taxes in 1965-66 in the Circle was Rs. 159 crores under the jurisdiction of one CIT and audit was carried out by AG, West Bengal. The total Central receipts in the Circle in 1970-71 was Rs. 480 crores - Rs. 166 crores on Direct Taxes and Rs. 314 crores on Indirect Taxes. Audit of Direct Taxes was carried out by 2 Headquarters sections with one AO and 37 parties, of which 20 were AO parties and the total strength of the wing was 184 - 75 SAS accountants, 96 UDCs and 13 LDCs in 1971. Two Headquarters sections with 2 AOs and two parties were added in 1972-73 and the total strength increased to 212 and the Revenue Audit Wing was supervised by Sr. DAG from August 1972.

There were 16 charges of Commissioners of Income Tax in West Bengal, Calcutta in 1972. 42 parties and 4 headquarters sections with 40 accounts officers, 98 section officers and 68 auditors were employed in audit of income tax receipts. The receipts from income tax were Rs. 410.3 crores in 1976-77. The number of field parties increased to 52 in March 1979 - 55 AOs, 120 SOs and 83 Sr. auditors. In 1983-84, there were 52 parties and 5 headquarters sections with a total strength of 298 - 5 AOs, 16 AAOs/SOs, 30 Sr. Ars., 7 clerks, 1 Steno and 5 Goup D at headquarters and 234 in field - 52 AOs, 104 AAOs/SOs, 52 Sr. auditors/auditors and 26 group D. The number of wards audited during the period 1978-79 to 1986-87 varied from 478 to 568 and the average number of wards subjected to inspection was 528 per annum. The number of cases checked ranged from 7,017 to 71,429, an average of 33,043 per annum. Mistakes detected increased from 454 to 3436, the average being 1329 and the monetary effect of the objections raised in audit were of the order of Rs. 28.08 lakhs to Rs. 1416.25 lakhs, the average being Rs. 371.94 lakhs per annum. The number of wards visited for audit of Gift Tax ranged from 503 in 1978-79 to 521 in 1986-87, the average being 491 wards per annum; the total number of cases checked ranged from 251 to 1043, an average of 830 per annum. 67 to 138 mistakes were detected - the average being 97 and the money value of the objections varied from Rs. 7.09 lakhs to Rs. 45.09 lakhs, an average of Rs. 19.37 lakhs per annum. 12 wards were visited for audit of Estate Duty in 1978-79 and 13 in 1986-87; 972 to 1011 cases were checked, 60 to 140 mistakes were pointed out and the money value of objections ranged from Rs. 9.45 lakhs to Rs. 10.53 lakhs. 52 parties issued 760 reports on an average per annum during the last 3 years. In March 1988, 1262 Reports with 4495 paras were outstanding, which constituted 46% of the turnover of reports during the year and 49% of the paras included therein. The total number of paras contributed for the Audit Report on Direct Taxes during the period were 579. The contribution during the last seven years was as under :

Direct Taxes

Audit Reports	Corporation Tax Para	Corporation Tax MCP	Income Tax Para	Income Tax MCP	Other Direct Taxes Para	Other Direct Taxes MCP
1981-82	1	33	2	3	-	7
1982-83	5	43	-	3	-	11
1983-84	4	53	-	6	-	17
1984-85	1	96	-	14	1	22
1985-86	4	134	-	10	2	10
1986-87	6	108	1	11	-	10
1987-88	6	109	2	9	1	16

The following were few of the important points raised by the DA.

(i) Two sums of Rs. 297.72 lakhs and Rs. 318.17 lakhs being the claim of M/s. Dunlop (India) Ltd., for gratuity liability calculated on accrual basis and determined on actuarial valuation, were allowed under appellate orders in the assessments for the assessment years 1972-73 and 1973-74. In the assessment for the years 1975-76 to 1981-82 and 1983-84 the assessee debited a sum of Rs. 342.31 lakhs to its accounts on actual payment of gratuity to its retiring employees, which was allowed as deduction. As the sum of Rs. 342.31 lakhs was already allowed as per appellate orders in the assessments for the years 1972-73 and 1973-74, grant of further deduction, resulted in double allowance of Rs. 342.31 lakhs. Undercharge of Rs. 239.93 lakhs including short-levy of interest of Rs. 36.31 lakhs and short-levy of surtax of Rs. 5.98 lakhs was involved*.

(ii) In the assessment of M/s. Damodar Valley Corporation, for the assessment year 1984-85, unabsorbed depreciation to the extent of Rs. 2580.36 lakhs - instead of Rs. 2520.36 lakhs - was set-off resulting in under assessment of incentive total income by Rs. 60 lakhs. Further, an excess allowance of depreciation of Rs. 15.21 lakhs was allowed. In computing total income, the said amount was deducted instead of being added back resulting in further under assessment of income by Rs. 30.42 lakhs. Undercharge of tax and interest of Rs. 22.99 lakhs and potential tax effect of Rs. 36.55 lakhs were involved**.

(iii) #In computing total income for the assessment year 1982-83 of the Peerless General and Investment Co. Ltd., a sum of Rs. 8569.57 lakhs being the first year's subscriptions on welfare endowment certificates was credited to P & L Account. The sum was arrived at after deducting Rs. 345.11 lakhs, being provision for refund, which was not an ascertained liability and was required to be disallowed. Failure to do so led to an under assessment of income by Rs. 345.11 lakhs. Undercharge of Rs. 297.89 lakhs including short-levy of surtax of Rs. 67.96 lakhs was involved.

(iv) #M/s. Reckitt & Coleman of India Ltd., in the assessment for the year 1983-84 made for the first time a provision of Rs. 36.28 lakhs being estimated liability towards encashment of leave by its employees. The entire amount of provision was allowed as deduction. As this was made not for an ascertained liability but for a contingent one, it was not allowable. Allowance of the same led to an under assessment of income by Rs. 36.28 lakhs. Undercharge of Rs. 38.36 lakhs including interest of Rs. 17.90 lakhs was involved.

---

* Para 3.13.1 (i) of A.R. 1987-88 (Revenue Receipts - Direct Taxes).

** Para 2.03.7 (iii) Item No. 17 *ibid.*

\# Administrative Report DA Central Calcutta 1987-88.

AUDIT OF CENTRAL EXCISE

The income from Central Excise duties in the Circle in 1965-66 was Rs. 191 crores, which rose to Rs. 314 crores by 1970-71 under the jurisdiction of two Collectors of Central Excise. 20 parties comprising of 10 AOs, 45 SOs and 40 auditors were engaged in audit of central excise receipts in 1971. There were 2 Headquarters sections with 2 AOs, 4 SOs, 3 SG auditors, 6 clerks and 4 group D and 20 parties with 10 AOs, 45 SOs, 30 auditors and 18 group D in March, 1979. The turnover of receipts increased to Rs. 565.88 crores in 1980-81, Rs. 713.23 crores in 1983-84, and Rs. 963.52 crores in 1986-87. The number of auditors in the field increased to 19 in 1983-84 and decreased to 17 in 1987-88. During the last 4 years, 18 parties, each consisting of 1 AO, 2 AAOs/SOs and 1 Sr. auditor, were employed on audit of 9,855 units of Central Excise Department. The average number of units subjected to audit each year was 2464 and 56% was subjected to annual audit. 1023 inspection reports incorporating 2460 objections with total money value Rs. 41,115 lakhs were issued; the average turnover was 256 reports and 660 paras with monetary value of Rs. 10,279 lakhs. In March 1988, 842 reports with 1928 paras were outstanding, which constituted 79% of the turn-over of reports in the year and 76% of the paras included therein. 464 paras were contributed for the Audit Reports 1972-73 to 1986-87 and 153 were included in common paras relating to total under assessments. While 14 paras were included in 1973-74 Report, material in 97 paras (81 individual paras and 16 common paras on underassessment) were processed for AR 1986-87.

Few of the important underassessments and irregular refunds reported are given below :

(i) Short levy of duty :* (a) A manufacturing unit produced and cleared "Cell Cover Tops and Bottoms" on payment of CE duty at the rate of 15 per cent *ad valorem* under chapter 73 of Central Excise Tariff. Since the goods were "Battery Cell Cover Tops and Bottoms", these were properly classifiable under sub heading 8506 as parts of primary cells and primary batteries with a rate of 30 per cent *ad valorem* duty upto 28th February 1987 and then 35 per cent from 1st March, 1987. Incorrect classification had, therefore, resulted in short levy for Rs. 15.22 lakhs for the period from April 1986 to May 1987.

(b) *A licensee manufactured and cleared Alumina Wares of various shapes and sizes as carrier for catalyst and paid Central Excise

• Para 3.25 (i) of A.R. 1987-88 (Revenue Receipts - Indirect Taxes)
• Para 3.39 (i) *ibid*.

duty at the rate of 15 per cent *ad valorem* by classifying the same under sub heading 2804.90 - others *i.e.* Inorganic Oxide etc. But as per Note 2 of chapter 69, this chapter applied only to ceramic products which had been fired after shaping. The manufacturing process and the end use clearly suggested that the product manufactured by the licensee was classifiable under sub heading 6907.00 chargeable to duty at the rate of 30 percent *ad valorem*. The misclassification had resulted in short-levy of duty to the tune of Rs. 1.19 lakhs during the period 1st March, 1986 to 29th February, 1987.

*(ii) Non levy of duty*** : The Carbide and Gases unit of a licensee manufactured 'Lime' (called Lump Lime) by calcining lime stone, classified it under heading No. 28.06 and consumed it captively for manufacture of calcium carbide without payment of any Central Excise duty on the strength of a notification issued on 2 April, 1986. The product was properly classifiable under heading 25.05, as this heading specifically covered 'lime'. The misclassification resulted in non-levy of duty Rs. 17.74 lakhs during the period from March 1986 to February 1987, which was admitted by the Ministry.

(iii) Incorrect Grant of Exemption$: As per a notification issued on 1st March, 1984 benezene, toluene etc. classifiable under chapter 27 of the schedule to the Central Excise Tariff are chargeable to concessional rate of duty of Rs. 472.50 per kilolitre at 150 centigrade subject to condition that the goods are intended for use as solvent diluent or thinner for manufacture of adhesive and procedure under chapter X of Rules 1944 are followed. A unit holding L 6 licence obtained benzene and toluene on payment of concessional rate of duty and used the product in the manufacture of thinner, which was partly used in the manufacture of adhesive and partly sold outside. Since the concession was not admissible for benzene and toluene used in thinner, which was sold outside, differential duty of Rs. 5.32 lakhs on 233.64 kilolitres of benzene and toluene used for such thinner sold during the period from 1st March, 1986 to 9th February, 1987 was payable by the licensee and the objection was accepted by the Ministry.

(iv) Demands barred by limitation@ : A manufacturer of Kraft paper (erstwhile Tariff Item 17) paid duty at a concessional rate under a notification issued on 18 June, 1977 but realised full duty from Customers. Since this practice of collection of more duty than that paid to Government required redetermination of assessable value and the

** Para 3.20 (ii) of AR 1987-88 (Revenue Receipts - Indirect Taxes).

$ Administrative Report 1987-88.

@ Para 3.64 *ibid*.

Department did not issue any show cause-cum-demand notice for short levy of duty, audit objection was raised on this issue on 5 April, 1981 and Department issued Show Cause-Cum-Demand Notices to the assessee. During subsequent audit (March 1987) it was noticed that the department issued ten show cause notices under Sec. 11A of the Act between 30 November, 1982 and 18 July, 1983 for such short-levy of Rs. 9.18 lakhs payable for the period from July, 1979 to September, 1980. The concerned Asstt. Collector of Central Excise, while adjudicating the cases, observed (31st July, 1985 and 27th September, 1985) that all the demands were time barred but the adjudication orders were not sent for examination by the Collector (Appeals) under section 35 A(2) of the Act. Thus, even after enactment of the Section 47 of the Finance Act 1982 and clear instruction from the Ministry to issue such demand notices under Sub section 2(d) of Section 47, the Department issued show cause notices under Section 11A and this technical flaw of not issuing proper show cause notices escaped the notice of the Department. Moreover, all along the Department claimed awareness of short payment of duty but no precautionary measure like executing bond of provisional assessment for sufficient amount was taken to safeguard Government revenue. The failure of the Department to take timely action resulted in loss of revenue of Rs. 9.18 lakhs.

AUDIT OF CUSTOMS DUTY

The income from Customs Duty under the jurisdiction of two Collectors of Customs was Rs. 166 crores in 1965-66 and 2 AOs, 14 SOs, 9 auditors audited customs receipt in 1971. The receipts rose to Rs. 280 crores in 1975-76 and to Rs. 305 crores in 1976-77. In March 1979, there were 2 AOs, 14 SOs and 9 auditors in the wing. The receipts increased to Rs. 674.22 crores in 1980-81 and the total strength of the customs audit wing rose to 40 - 5 AOs, 21 SOs, 9 auditors and 5 typists in 1980-81. The income from Customs Duty was Rs. 1889.19 crores in 1987-88. In March, 1987 there were 4 units having a total strength of 32 (4 AOs, 13 AAOs, 3 SOs, 6 Sr. auditors, 1 auditor and 5 clerks). Two inspection parties and a Resident Audit party carried out local audit and inspection of 45 units and formations each year. The number of reports issued ranged from 23 with 258 paras in 1984-85 to 18 with 294 paras in 1987-88. In March 1988, 81 reports with 320 paras were outstanding. The number of paras contributed for Audit Reports. 1980-81 to 1987-88 ranged from 10 (including material for 7 clubbed in common paras) to 50 (including material for 31 common paras) with monetary effect ranging from Rs. 10.80 lakhs to Rs. 1176.45 lakhs. The maximum contribution both in terms of number and money vlaue was for the Audit Report

1987-88 - 50 paras (19 individual paras and material for 31 common paras) with a total money value of Rs. 11.76 crores.

The contribution for Audit Report on Indirect Taxes for the last seven years was as under :

Audit Reports	Customs Paras	Customs MTUA	Central Excise. Paras	Central Excise. MTUA
1982-83	11	4	45	21
1983-84	15	17	57	24
1984-85	17	20	50	26
1985-86	18	18	74	22
1986-87	19	17	81	16
1987-88	19	31	61	19

A few of the important points included in the Reports are given below :

*Short levy due to under valuation and leakage of foreign exchange**: As per section 14(1)(a) of the Customs Act, 1962 value for the purpose of levy of import duty is the price at which the imported goods are sold or offered for sale for delivery at the time and place of importation, in the ordinary course of international trade, where the seller and the buyer have no interest in the business of each other and price is the sole consideration for the sale or offer for sale.

A limited company in Faridabad imported two consignments of wire rods valuing Rs. 3,40,799 and Rs. 6,88,624 under open general licence and without any guarantee issued by any Indian Bank or any approval from the Reserve Bank of India for deferred payment. The said amounts were exclusive of interest charges at 14 per cent for a period of 120 days (fixed) calculated on the aforesaid values. The so called interest charges were included in the invoice and were paid for by the importer. The payment was made to the foreign supplier in foreign exchange through confirmed and irrevocable letters of credit opened by the importer on the State Bank of India nominated by the supplier. The letter of credit was stated to be "120 days at sight". Even though the total price mentioned in the invoice was the sole consideration for sale and foreign exchange to the full extent of the invoiced price went out of the country, customs duty was levied only on the balance of the invoiced price after excluding the so called interest charges. This was done on the plea that the so called interest charges were not payment towards the imported goods. The interest charges were considered to be payment to the same supplier

* Para 1.21 of A.R. (Revenue Receipts) 1983-84, Vol I - Indirect Taxes.

towards interest, if any, paid by him to the foreign banker on the value of the goods for the period intervening between the date of shipment of the goods and the date of receipt of payment by the foreign supplier.

The letter of credit was to be opened for shipment in October or November 1981 and valid for shipment upto the end of December 1981. The letter of credit was to be negotiable upto 15 January 1982 as per terms and conditions laid down by the foreign supplier. This indicated clearly that credit, if at all, given by the foreign supplier was not for a period of 120 days. Further letter of credit was opened for the full amount shown on the invoice before shipment was made and the foreign exchange went out of India as soon as the letter of credit was opened or in any case as soon as it was encashed after shipment. There should normally be no question of any interest element in the amount for which the letter of credit was opened by the importer through the Bank in India on the foreign bank. In the result, either an unwarranted addition was made of about 3.6 per cent (14 per cent per annum for 120 days) on the amount of foreign exchange remitted abroad or the real consideration for the sale of the goods was reduced by about 3.4 per cent resulting in short levy of customs duty to that extent. In the latter case, on the imports in question the short levy of customs duty amounted to Rs. 24,179.

On the short levy by under valuation (implying also possible irregularity in foreign exchange remittance) being pointed out in October, 1982, the department stated in April 1983 that under executive instructions such cases were viewed as deferred payment cases. Consequently payments not forming part of the value of the goods were not to be included in the assessable value. The reply was however, silent on the fact of full foreign exchange remittance by letter of credit even prior to shipment, which contradicted the possibility of any deferred payment unless irregularity in foreign exchange remittance was committed. The reply was also silent on the outcome of investigations if any done by Director of Enforcement of the foreign exchange regulations.

The objection was reported to Ministry of Finance whose reply was awaited.

*Delay in disposal of seized and confiscated goods:*** For the purpose of disposal of goods seized/confiscated under the Customs Act, 1962 the department has classified the goods in the following four categories after prescribing the maximum time limit for their retention :—

** Para 1.43 of A.R. (Revenue Receipts) 1985-86, Vol. I - Indirect Taxes.

Category	Nature of goods in brief	Maximum period of retention
I	Goods prone to rapid decay or requiring special arrangements for their preservation and storage/requiring high cost of maintenance.	Immediately after seizure
II	Goods having short life time involving risk, heavy expenses for storage/maintenance.	Six months
III	Goods liable to rapid depreciation in value, if unclaimed and abandoned.	Immediately after adjudication
IV	All other goods not falling elsewhere.	To be disposed of after completion of all due formalities.

Under executive instructions contained in Central Board of Excise and Customs letter of 25 July, 1968 the officers carrying out half yearly stock taking or quarterly stock challenges are required to examine whether the consignment of the seized/confiscated goods as a whole or a part thereof shows signs of deterioration, substitution or pilferage. In case deterioration is noticed in the goods awaiting adjudication, the matter should be brought to the notice of the proper authority immediately so that prior attention is given to the disposal of the relevant case. Even where the goods are involved in court proceedings, it will be necessary to bring the matter to the notice of the court and ask permission for the disposal of goods pending finalisation of the proceedings of the court.

In Calcutta Custom House, 543 consignments of confiscated goods valuing Rs. 112.39 lakhs had been lying unsold as on 31 March, 1986 for want of disposal orders for periods ranging from three to more than twenty years as under :—

Period	Item no. of consignments	Value (Rs. in lakhs
More than 20 years	13	1.24
10 years to 20 years	56	14.27
3 years to 10 years	474	96.88
	543	112.39

Because of prolonged storage of goods which include animal skins, electronic goods, watch parts, photographic goods etc., possibility of these goods becoming unsaleable or fetching insignificant sale proceeds was pointed out in audit (January 1983, August 1984 and June 1986). The department stated (August 1986) that in respect of the goods :

(i) Pertaining to the period from 1961 to March 1976, besides a few court cases on which action was being taken through legal department and narcotics bureau, there were watch parts (Rs. 71,000) for which disposal action was being taken.

(ii) pertaining to the period from April 1976 to March 1981, considerable amount of revenue was involved in this area. Although factors like timely receiving of disposal orders, shortage of manpower in the outlet, problems of space in sale shed, etc. came in the way of speedy disposal, special action was being taken to expedite disposal.

No comment was, however, offered by the Custom House in respect of the goods pertaining to the period from April 1981 to March 1983.

The matter was reported to Ministry of Finance whose reply was awaited.

In West Bengal Collectorate, 1753 cases of seized goods valuing Rs. 1.20 crores were lying for disposal as on 31 May 1986. Confiscated goods valuing Rs. 17.94 lakhs comprising of typewriters, nylon fabrics, sewing machines, cassette tapes, medicines, electronic goods etc. in respect of 152 cases has been retained in the godown for long periods eventhough these cases had been ripe for disposal. In fact, in 114 cases valuing Rs. 10.35 lakhs of these 152 cases, the period varied from more than 6 years to more than 20 years. This resulted in damage or deterioration of the goods and consequent loss of revenue.

When it was pointed out in audit (March 1983) that continued retention of perishable goods would lose their saleable value in the market considerably, the Customs House stated (July 1985) that the matter was under scrutiny. Final reply is awaited (June 1986).

The Ministry of Finance stated (January 1987) that, at present, only goods worth Rs. 3 lakhs pertaining to the period from 1965 to 1979 were lying undisposed, out of which goods valuing Rs. 0.24 lakh were held up in Court/Appeal cases.

Regarding the goods pertaining to the period from 1980 to May 1986, the Ministry added that the stock was continuously being disposed of as and when they became ripe for disposal and the latest position was being ascertained.

Loss of revenue due to delay in disposal of uncleared warehoused goods$:
In terms of Section 72 of the Customs Act, 1962, where any warehoused

$ Para 1.44 of A.R. (Revenue Receipts) 1985-86, Vol. I - Indirect Taxes.

goods have not been removed from a warehouse at the expiration of the period during which such goods are permitted under Section 61 to remain in a warehouse, the proper officer may demand and the owner of such goods shall forthwith pay the full amount of duty chargeable on account of such goods together with all penalties, rent, interest and other charges payable in respect of such goods. If the owner fails to pay the amount demanded, the warehoused goods may be caused to be detained and sold by the proper officer.

(a) A consignment of 1200 bags of paranitroacetophane, an intermediate drug for manufacture of chloram-phenicol, was warehoused in January 1971 after importation. The goods were allowed to be warehoused upto June 1976, 1195 bags of the aforesaid consignment were taken over by the Custom House in April 1978 as the importer did not clear them within the warehousing period. The goods were sent to the chemical examiner in November 1975 and July 1979. The reports on both the occasions were that the samples did not show signs of deterioration. However, in his report (July 1981) the Assistant Drug Controller observed "It is stored under a layer of black chemical (probably carbon compound with dirty foreign particles) found to be lumpy and absorbed moisture. As such early disposal to an actual user is required to be made without further delay".

The subject goods were put to auction in September 1981, fixing the reserve price at Rs. 9.01 lakhs. The bids received from time to time were as follows :

Month	Amount of the bid (Rupees)
September, 1981	65,000
November, 1981	2,50,000
December, 1981	1,80,000
February, 1982	No bid
April, 1982	-do-

None of these bids was accepted. In response to a tender floated in April 1982, an offer of Rs. 1,75,000 was received. The consignment was, however, not sold and still remained unsold (June 1986). Delay at every stage from taking over of uncleared warehoused goods to their disposal, fixing of reserve price far above the price which the goods could fetch on the basis of their conditions at the time of their disposal and improper storage of a sophisticated drug intermediate resulted in avoidable loss of revenue. The fact that the reserve price had been fixed at Rs. 9.01 lakhs as against the maximum market value of Rs. 2,50,000 offered in

November 1981 and its subsequent decrease to Rs. 1,75,000 shows that the reserve price fixed by the department leaves a room for doubt as to whether it took due note of the deteriorated condition of the goods and their saleable price. The goods valued by the department at Rs. 9.01 lakhs in September 1981 have, with the passage of time, become virtually unsaleable. The matter was pointed out to the department in December 1983, August 1984 and January 1986. The Ministry of Finance confirmed the facts.

(b) In respect of a consignment of "Urea Formaldehyde Rasin powder" imported in April 1975, the warehousing period expired in April 1977 and extension for further warehousing was granted. The importer relinquished his claim on the goods in February 1978. The goods were sent for chemical test in December 1978, January 1980 and April 1981. The first two reports stated that the sample did not show any apparent sign of deterioration. The last report indicated that the material was partially set into lump and the sample lost thermosetting property.

The subject goods were put to auction after fixing the reserve price at Rs. 2.20 lakhs. The bids received from time to time were as follows :

Month	Amount of the bid (Rupees)
November 1980	1,00,000
December 1980	1,65,000
February 1981	1,00,000
June 1981	50,000
August 1981	
September 1981	
November 1981	No bid
December 1981	
August 1982	

None of these above bids was accepted. In February 1982, a tender was called for and a sum of Rs. 72,000 was offered. But the consignment was not sold and it remained unsold till June 1985. However the goods were sold for Rs. 33,500 in the auction held in July 1985. It would appear that the consignment which was not sold at the highest offer of Rs. 1.65 lakhs received in December 1980 could fetch only Rs. 33,500 in July 1985. It is also significant to note that the chemical examiner had stated in his report dated 17 March 1980 that the bonding property could not be tested. On 13 April 1981 it was again stated by him that the material was partially set into lump and the sample had lost thermosetting property. Evidently this fact had not been taken into consideration by the customs authorities even while rejecting the next offer of Rs. 50,000 made in June 1981.

The Public Accounts Committee in paras 2.32, 2.35, 2.36 and 2.37 of their 44th Report (Seventh Lok Sabha) (1980-81) had specifically invited attention to the instruction of Government that utmost care, precaution and expedition should be exercised to ascertain from Drug Control Authorities not only the identity, purity, potency of the chemical drug at the time of seizure but also the life expectancy of seized drug/chemicals and the Committee also expected that these instructions would be scrupulously followed. The Committee also observed that the valuation of seized goods should be realistic so that there is no undue disparity between the value of goods at the time of seizure and that at the time of their final disposal.

As a result of above recommendations, Government in their instructions dated 1 October 1981 invited the attention of the collectors of Customs Central Excise authorities to their earlier instructions of 21 December 1978, 27 December 1979, 27 April 1981 and 2 May 1981 on the urgency for expeditious disposal of perishable goods such as drugs/chemicals. It would, therefore, transpire that inspite of the several instructions regarding the disposal of perishable goods issued by Government, the same were not implemented to the best advantage of Government, resulting in loss of revenue in the aforesaid two cases. The Ministry of Finance confirmed the facts. *Non recovery of demands for duty on goods not proved to have crossed border*$$: (a) In pursuance of the provisions of the protocol to the Treaty of Transit between India and Nepal, the Government of India exempted all goods when imported into India from a foreign country for the purpose of export to Nepal from the whole of the duty of customs leviable under the First Schedule to the Customs Traiff Act, 1975 and from the whole of the additional duty leviable under Section 3 of the said Act vide Notification 68 dated 25 March, 1978. According to the memorandum to the Treaty, the importer is required to present a Customs Transit Declaration (CTD) with the declaration that the goods entered therein are for Nepal in transit through India and shall not be diverted enroute to India or retained in India. In case of any deficiency, the carriers/Insurance Companies are to pay for the goods lost in transit. In terms of the Treaty concluded in 1971 the payment was equivalent to the difference between the Indian market value and the C.I.F. value of the goods. In terms of Treaty of 1978, goods moving by rail upto the border shall be covered by an insurance policy for an amount equal to the Indian customs duty on such goods. Goods moving by road in trucks belonging to Nepal Transit and Warehousing Corporation or Nepal Transport Corporation shall also be covered by an

$$ Para 1.53 of A.R. (Revenue Receipts) 1985-86, Vol. I - Indirect Taxes.

insurance policy as above. These policies shall be assigned to the Collector of Customs and the amount shall become payable to the Collector in the event of the goods not reaching Nepal. In addition Nepal Transit and Warehousing Corporation shall give an undertaking to the Collector to pay the difference between the market value of goods in India and their C.I.F. value plus Indian Customs duty in the case of goods not reaching Nepal. Goods moving by road in trucks other than those mentioned above shall be insured for an amount equal to the difference between the market value of the goods in India and their C.I.F. value which would become payable to the Collector in case of losses in transit. According to para 16 of the memorandum to Treaty, the importer will present to the Assistant Collector of Customs the original CTD duly certified by the authorised officer of Customs and Central Excise and the Nepalese Customs officer to the effect that goods have crossed into Nepal. The original declaration should reach the Assistant Collector concerned within one month of the date on which transit was allowed at the Indian port of importation or such extended time as the customs authorities may allow.

A major Customs House could not finalise and raise demands in respect of a large number of CTDs under the cover of which goods in full or part did not report Indian Customs border station. The yearwise break up of the number of CTDs registered in the Customs House and those which remained unmatched for period from 1981 to 1985 was as follows :—

	Number of CTDs	
	Registered	Remained un-match
1981	7,853	542
1982	11,030	1,378
1983	11,775	1,858
1984	7,868	729
1985	10,852	1,584
Total	49,378	6,091

The Custom House confimed (February 1985) that a total number of 6091 CTD remained unmatched at the end of 1985. Failure on the part of the Customs House in matching the Transit Declaration might result in loss which had arisen in transit, remaining unnoticed and undetected, resulting in consequential nonrecovery of customs duty on the lost goods. The Customs House stated (February 1986) that necessary action was being taken to liquidate the pending CTDs.

(b) Non-relisation of demands pending against importers or transporters not furnishing proof of transit of goods over the border. Demands totalling Rs. 94,92,186 were outstanding in the books of Nepal unit of the Custom House against the Railways, insurance companies and Royal Nepalese Consulate General on account of shortage or loss of consignments cleared for transit to Nepal. The details of the demands outstanding are as follows

		Period	No. of cases	Value
				Rs.
A.	Railways	1964 to 1979	2879	90,79,440
B.	Insurance Companies	1968 to 1971	130	1,79,186
C.	Royal Nepalese Consulate General, Calcutta	Not available	Not available	2,33,650
	Total			94,92,186

In respect of the demands against Railways, the department stated (February 1986) that a detailed list of claims preferred against the Railways had been forwarded (January 1985) to the Chief claims officer, North Eastern Railway under intimation to the Central Board of Excise & Customs. In respect of the demands issued against the insurance companies, the Customs House observed that, while the insurance companies were insisting on production of shortage certificates issued by the carrier/transporter, insurance claims were filed on the basis of shortage in transit reported by the Border Examiner of Land Customs. There was no practice of getting such certificates from the transporter. No action against the insurance companies could also be taken under the Customs Act, 1962 as such claims were not in the nature of demands under the provisions of the said Act. However, the Customs House was taking action for obtaining certificates from the transporter. Out of the demanded sum of Rs. 2,33,560 outstanding against Royal Napalese Consulate General, Rs. 2,10,659 relates to 'Fertilizers' which are normally exempted from duty. The Customs House observed that the main difficulty faced by them in enforcing the provisions of para 16 of the memorandum to the Treaty is the absence of any provision in the Treaty or any supplementary legislation regarding the methodology for recovery of such amounts due to customs department. The Ministry of Finance stated (November 1986) that the Collector of Customs, Calcutta had reported about the pendency of Customs Transit declarations having been brought down to 5135. The Ministry added that, in most of these cases, the goods must have actually reached Nepal but the endorsed copies of the Customs Transit declarations might have been lost in transit. the Ministry, however, clarified that steps for verification of the actual crossing of the goods at the land custom stations concerned had been initiated and that the pendency would be brought down substantially.

As regards the oustanding demands against Railways, the Ministry stated that the matter was being pursued with the Railway Board. In respect of demands outstanding against the Insurance Companies, the Ministry pointed out that some difficulty was being experienced to get the shortage certificate from the carriers and the matter was being sorted out with the Insurance Companies to accept the shortage certificate issued by the customs department. In regard to the pending demands against the Royal Nepalese Consulate General, the Ministry added that the matter had been taken up with His Majesty's Government of Nepal through protocol channels.

*Short Levy of Duty Due to Incorrect Grant of Exemption—Iron and Steel Products**: As per an ad hoc exemption order dated 2 April 1984, 19,838 tonnes of steel bars imported by a public sector undertaking from Japan for use in the construction of low cost houses were exempted from the whole of the customs duty leviable thereon. During April and May 1984 a public sector undertaking imported 19609.977 tonnes of deformed steel bars (11,701.045 tonnes through Calcutta port and 7908.932 tonnes through Vizag port) without payment of customs duty on the basis of the aforesaid exemption order.

A scrutiny of the bills of entry relating to the imports through Calcutta port revealed that the Custom House did not exercise any checks to verify whether the object of granting exemption was fulfilled. There was no documentary evidence in the Customs House as to whether the verification of the end use of the imported goods was ascertained. However, an examination of the records of the said public sector undertaking in audit revealed that a quantity of 6480.659 tonnes of bars, involving Customs duty of Rs. 2.10 crores were not utilised by the three subsidiaries of the public sector undertaking for the object for which duty free imports were allowed under the ad-hoc exemption. The position in respect of the remaining quantity of steel bars imported

* Para 3-13(i) of AR (Revenue Receipts) 1986-87. Vol. I., Indirect Taxes.

through Calcutta port was not known. In respect of the quantity of 7908.932 tonnes of deformed steel bars imported through Vizag port, the amount of revenue forgone was Rs. 2.41 crores. The reply of the Ministry of Finance had not been received.

*Delay in finalisation of provisional drawback payments**:* Under provisions of the Customs and Central Excise-Duties Drawback Rules, 1971, where no amount or rate of drawback has been determined in respect of any goods, an exporter may apply to Government for determination of drawback and also for provisional amount towards drawback, pending determination of final amount or rate of drawback. If, on determination of the final amount or rate of drawback payable, the amount paid provisionally is found to be more than the amount determined as finally payable, the exporter has to repay the excess amount. The Ministry of Finance, Drawback Directorate in their latter No. F. 609/220/76-DBK dated 8 February 1977 clarified that it was the responsibility of the collectors to ensure that provisional payment cases were finalised on the basis of final rates at the earliest and in cases where final rates had not been notified within two months of the sanction of provisional drawback, such cases should be promptly brought to the notice of the Drawback Directorate.

It was noticed from the drawback files of an exporter that in respect of consignment consisting of 20 units of Tata chassis and 20 units of synchromesh gear box, exported in February 1980, drawback was allowed provisionally at the rates of Rs. 5830 per chassis and Rs. 7,675.58 per gear box respectively. The relevant orders regarding provisional payment of drawback having been called for by Audit (June 1982), the Custom House furnished the order relating to the chassis in March 1983. The order relating to gear box was again requisitioned (March 1983). In reply, the Custom House forwarded (April 1985) some other papers relevant to the export of chassis, but no order granting provisional drawback on gear box was furnished. The papers furnished by the Custom House included a letter of September 1983 from the exporter. The said letter revealed that the final drawback on chassis was determined in November 1981 at 9.5 per cent of the F.O.B. value and the exporter adjusted an amount of Rs. 1,62,969 against the drawback received by it provisionally on both chassis and gear box. The said amount was arrived at by applying the rate on the total F.O.B. value of chassis and gear box instead of chassis only. The balance of Rs. 1,07,141 was refunded by the exporter.

** Para 3.26 of AR 1986-87 (Revenue Receipts) 1986-87, Vol. I, Indirect Taxes.

In June 1985 it was pointed out by Audit that in the absence of any order, provisional payment of drawback to the extent of Rs. 1,53,511 and Rs. 1,22,809 on the export of gear box in February 1980 and December 1979 respectively was irregular. It was also pointed out that the drawback on chassis also required to be finalised on the basis of the approved rate of 9.5 per cent. A suggestion to review all provisional cases was also made. The department intimated in November 1986 that Rs. 1,07,141 having already been refunded by the exporter in October 1983, the balance amount of Rs. 1,69,179 was realised in August 1986. The department, however, remained silent about adjustment of drawback on chassis on the basis of the approved rate of 9.5. per cent of F.O.B. value. The position regarding provisional payments of drawback made by the department to the exporters was reviewed, which indicated that (*a*) No record regarding provisional payment of drawback was made available to Audit. (*b*) There was no evidence to show that the aforesaid instructions dated 8 February 1977 were followed by the Custom House. (*c*) The Custom House did not devise any mechanism (November 1986) for keeping watch over claims provisionaly sanctioned. It was also admitted (November 1986) that the aforesaid audit observations of June 1982 was attended to only recently and the case was discussed with the representative of the exporter in August 1986. The same exporter disclosed (November 1986) over-payment of drawback to the tune of Rs. 1,55,32,680 and deposited with the Government Rs. 82,45,583 after adjusting Rs. 72,87,097 due to it on some other account, (*d*) On scrutiny, the Customs House found that there had been irregular payment of drawback to the aforementioned exporter to the extent of Rs. 2,89,36,216 between June 1978 and May 1980 in respect of 129 shipping bills and raised a demand (January 1987) for Rs. 2,06,90,633 after adjusting Rs. 82,45,583 mentioned at sub para (c) above. The demand was confirmed by the Collector in March 1987. The position in respect of provisional payments of drawback made to other exporters is not known and the Customs House has been asked to review similar other cases. (*e*) Inordinate delay in finalising provisional drawback cases has led to unauthorised retention of Rs. 207 lakhs by the exporter for more than seven years. Non-availability of proper records relating to provisional payments and the absence of any system of monitoring over these cases had contributed to the delay. As there is no provision in the customs Act and the drawback Rules to charge interest on such amount, this has resulted in an unintended benefit to the exporter. The Ministry of Finance stated that there was delay in the finalisation of provisional payments in some cases both on the part of the exporters and the Custom House. They added that verification in similar other cases had since been done by the Custom House.

Non Levy/Short levy of Auxiliary Duty@: Auxiliary duty of customs is leviable on the import of articles mentioned in the First Schedule to the Customs Tariff Act 1975 in terms of provisions contained in the Finance Act of the relevant year. Under notification 290/85 dated 3 September 1985, "wood in the rough" was exempted from the whole of auxiliary duty leviable under sub-section (1) of Section 43 of the Finance Act, 1985, provided they were the produce or manufacture of Burma. By virtue of the provisions contained in sub-section (4) of Section 49 of the Finance Act, 1986, auxiliary duty became leviable on the article at 40 per cent ad valorem with effect from 1 March 1986 under another notification 186/86 Cus. "Wood in the rough" was exempted from whole of the auxiliary duty leviable under the Finance Act, 1986 by notification 248/86 Cus. dated 15 April, 1986. On eight consignment of "Wood in the rough" of Burmese origin imported between 1 April, 1986 and 14 April, 1986, the auxiliary duty was not levied in terms of the aforesaid notification dated 3 September 1985. It was pointed out in audit (September 1986) that as the notification dated 3 September 1985 was issued under Finance Act, 1985, it would have no effect after the imposition of the auxiliary duty under the Finance Act, 1986. Incorrect application of the exemption notification in respect of the eight cases resulted in duty being levied short by Rs. 21,23,360.

The Custom House stated (October 1986) that they duty exemption granted in notification of September 1985 was not confined to the time limit operation of the Finance Act, 1985. The concession was also applicable to the subject goods by virtue of the provisions of notification dated 1 March 1986 in which it has been provided that nothing contained in that notification shall affect the exemption granted under any other notification for the time being in force the auxiliary duty in respect of goods referred to in the notification. The argument put forward by the department is not acceptable in view of the fact that (a) the auxiliary duty imposed under Finance Acts 1985 and 1986 were entirely different impositions and the Section of Finance Act 1985 imposing auxiliary duty ceased to have any affect after 31 March 1986. (b) The exemption notification 195/86 Customs dated 1 March 1986 providing for the non levy of auxiliary duty on all the goods under sub-section (J) of Section 43 of Finance Act 1985 during the period 1 March 1986 to 31 March 1986 had been issued in order to prevent double levy, implying thereby that the scope of the exemption notification under the relevant Finance Act 1985 was valid upto 31 March 1986. There would have been no need for the issue of aforesaid notification avoiding double levy if the notification

@ Para 3.27(*i*) of AR (Revenue Receipts) 1986-87, Vol. I, Indirect Taxes.

290/85-Customs dated 3 September 1985 were operative beyond 31 March, 1986. The department had however issued demands in October 1986 for a total sum of Rs. 21,23,360 levied short in respect of the eight cases.

The Public Accounts Committee, in para 1.10 of their 67th Report (Sixth Lok Sabha) (1977-78) observed "............ In the opinion of the Committee such repetitive instances of mistakes in the levy of regulatory duty/auxiliary duty only serve to reinforce the Committee's impression that adequate care is not taken in the drafting of notification and clarificatory instructions thereon..............."

It appears from the reply of the department that there have been no clarificatory instructions from the Ministry of Finance in this regard. The reply of the Ministry of Finance had not been received.

Leather boots imported under bond for re-export after repairs—delay in enforcing bond@: Section 143(1) of the Customs Act, 1962 empowers the customs authority to allow import or export of goods on execution of bond, where such authority is satisfied that, having regard to the circumstances of the case, the formalities required for import or export cannot be complied without detriment to the importer, or exporter. The bond shall be for the performance of the formalities within specified time after the import or export. sub-section (3) of the Section lays down that, in default of such compliance, the customs authority shall proceed upon the bond in accordance with the law. Two consignments of leather goods, consisting of 12950 pairs of boots, valued at 9.48 lakhs, were exported under claims for drawback during October and November 1978. The major part of these goods (11078 pairs) having value of Rs. 8.11 lakhs were imported in June 1979 for repairs. The exporter executed a bond on 18 June 1979 with the condition that the goods would be re-exported within a period of six months. The customs authority, however, extended the period from 6 months to one year (upto 17 June 1980) at the request of the exporter. The goods could not be exported even within the extended period.

When Audit enquired in October 1984 about the demand of duty on the re-imported leather boots, the department stated (April 1985) that a demand for customs duty amounting to Rs. 11.52 lakhs had been issued in August 1981 and a notice was subsequently issued in June 1984 asking the exporter to show cause why the bond should not be enforced for violation of the provisions of the bond executed at the time of reimportation of the goods. In reply to an observation made by Audit

@ Para 3.46 of AR 1986-87 (Revenue Receipts), Vol. I, Indirect Taxes.

again in January 1987, the department stated (April, 1987) that action subsequent to issue of show cause notice in June 1984 could not be pursued as the relevant departmental file was misplaced. It added that the said file had since been reconstructed and action for finalisation of the case initiated. The undue delay in realisation of duty of more than Rs. 11 lakhs by not enforcing the terms of the bond in time and non-pursuance of the case due to the loss of the concerned file have resulted in unintended benefit to the exporter. It is also significant to note that only after Audit had raised the issue in October 1984, the department took action to reconstruct the lost file, after becoming aware of the misplacement of the relevant file. The Ministry of Finance, while confirming the facts, stated that, against the orders of confirmation of demands by the Assistant Collector, the party had gone to the court. The Ministry added that the department had moved the Calcutta High Court to serve the order on the party and also to enforce recovery of the pending amount.

*Loss of revenue due to wrong closure of Internal Audit objections and Delay in issue of demands** :(i) As per section 28 of the Customs Act, 1962 notice for payment of duties not levied or short levied should be issued within six months from the date on which the proper officer made an order for the clearance of the goods or the date of payment of duty, as the case may be. In order to ensure that non-levy/short-levy of duties detected in audit are not barred by limitation, Government issued (February 1975) instructions fixing the time limit for forwarding the bills of entry to the Statutory Audit within a maximum period of 120 days from the date of payment of duty/date of order of the proper officer for the clearance of goods. As per these instructions, audit of the documents is required to be completed by the Internal Audit well in advance of the stipulated period of 120 days. An assessee imported, through a Customs and Central Excise Collectorate, sub-assembly electronics for colour monitors alongwith the main PCB units and EHT transformers under bills of entry of January 1984. The goods were, however, cleared on payment of customs duty at concessional rate as per notification 232/83-Cus-dated 18 August 1983 instead of at the tariff rate of customs duty in terms of Rule 2(e) of the General Rules for the interpretation of the First Schedule to the Customs Tariff Act, 1975. The mistake was pointed out by Internal Audit in July 1984, but no demand was raised by the department under Section 28(1) of the Customs Act, 1962. However, Internal Audit settled the objection in December 1984 within assigning

* Para 2.52 of AR 1987-88 (Revenue Receipts) Vol. I, Indirect Taxes.

any reasons. On a subsequent clarification sought (December 1985) by the aforesaid Collectorate from another Collectorate, the latter informed (March 1986) that sub-assembly electronics were chargeable to customs duty at the tariff rate of 100 per cent ad valorem plus auxiliary duty at 40 per cent plus additional duty at 30 per cent.

Accordingly a demand for Rs. 1,81,405 was raised in May 1986 against the importer after expiry of the time limit of six months. Subsequently, the demand had to be withdrawn as it was not in accordance with the provisions of Section 28. Because of the wrong closure of the objection by Internal Audit and the failure of the department to issue a demand under Section 28 of the Customs Act, 1962 soon after the detection of the mistake by Internal Audit (5 July 1984 to 9 July 1984), revenue amounting to Rs. 1,90,440 was lost. There was also delay in conducting internal audit (*i.e.* 155 days after the payment of duty), which too contributed to the loss of revenue.

On the loss of revenue being pointed out by Audit (June 1987), the department stated (September 1987) that Internal Audit pointed out that objection after the expiry period of six months. The Ministry of Finance while admitting the inordinate delay on the part of the I.A.D. stated that the objection, based on the application of Interpretative Rule 2(a) was dropped by IAD. The Ministry contended that regarding the admissibility of the concessional rate under exemption notification No. 232/83-Cus. dated 18 August 1983 to the subject goods, the department was satisfied that the concessional rate had correctly been extended to the relevant imported goods, after examining the relevant papers. The Ministry's reply was not acceptable because the demand was raised by the departmental after obtaining the clarification from Delhi Collectorate that sub-assembly electronic was chargeable to the basic customs duty at the tariff rate of 100 per cent ad valorem plus. appropriate rates of auxiliary and additional duties. The Ministry's reply indicated that there was divergence of practice in regard to assessment of sub-assembly electronics in the Collectorates of Delhi and Chandigarh and the past assessments of sub-assembly electronics in the Collectorate of Chandigarh did not appear to be free from doubt in so far as extending of the concessional rate of duty in terms of notification 232/83-cus. dated 18 August 1983 was concerned.

(ii) According to notification 155 Cus. dated 1 March 1986, parts falling within chapters 84 or 85 of the Customs Tariff Act, 1975 required for the purpose of initial setting up, or for the assembly or manufacture, of any article specified in the table annexed to that notification, are assessable to duty at the appropriate rates applicable to the said articles reduced by 15 per cent ad valorem. This notification was amended by the issue of another notification on 20 June 1986, omitting the Chapters 84 or 85 from the notification dated 1 March 1986, which resulted in the coverage of parts of goods falling under all the headings in the Customs Tariff for the purposes of extension of concessional rate of duty under the said notification.

A consignment of "components of boilers- B.W. fittings, Tees, Reducers and flanges" imported in March 1986 through a major Custom House, was assessed to duty under the sub-heading 7307.23 read with sub-heading 8402-20 at the concessional rate of duty at 35 per cent ad valorem (25 per cent ad valorem as auxiliary duty) under the aforesaid notification dated 1 March 1986. Internal Audit department of the Custom House pointed out in September 1986 that the goods were not eligible for the concessional rate of duty under the notification 155/86-cus dated 1 March 1986 as the goods assessed under the sub-heading 7307. 23 were not covered by the said notification prior to the Internal Audit was closed in August 1987 on the ground that these were "component parts of boilers" classifiable under the heading 84.02 *ibid.* It was pointed out (January 1988) in audit that the goods being "pipe fittings" would be correctly classifiable under the heading 73.07 only and not as *"parts of boilers"* under the heading 84.02. Accordingly, these "pipe fittings" would be correctly assessable to duty under the heading 73.07 at the effective rate of 70 per cent ad valorem (40 per cent ad valorem as auxiliary duty). The Custom House admitted the objection and stated that the short collection of duty of Rs. 91,971 had been recovered in March 1988.

The expenditure of the RA wing was Rs. 1.54 crores, which worked out to 0.04% of the total turnover of central receipts in the Circle.

CIVIL AUDIT

After departmentalisation of accounts, there was no central audit of civil expenditure. Audit of PAOs and DDOs located in West Bengal (other than those coming under the jurisdiction of DACWM) and audit of central autonomous bodies was conducted by inspection parties. Audit of PAO (A.N.I) was conducted by the Resident Audit Office at Port Blair, the concurrent and local audit of Farakka Barrage Project by RAO at the project site and audit of Calcutta Port Trust by RAO at Port Trust Headquarters. From 1986-87, audit of central departmental commercial undertakings like Doordarshan Kendra, Calcutta and Medical Stores Depot, Government of India, Calcutta was transferred to this office. The number of formations covered by audit during 1987-88 was 368 out of the total of 590, which constituted 62.37% of the units/formations subjected to inspection. 751 inspection reports containing 3832 paras were issued, while 226 reports with 2057 paras were settled. As on 31st March, 1988, 2336 inspection reports with 9528 paras were pending for settlement, of which 2163 IRs and 8533 paras were more than 6 months old. In respect of Autonomous Bodies, 32 out of 47 were audited during 1987-88 and 114 IRs with 585 paras were issued, 363 IRs with 1920 paras were outstanding for settlement on 31st March, 1988, of which 308 IRs with 1576 paras were more than six months old.

The D.A. contributed 4 reviews for A.R. - Union Government (Civil) during 1974-75 to 1987-88 - Haldia Dock Project (1974-75 Report), Tea Board (1977-78) and Calcutta Port Trust (1978-79 and 1987-88 Reports). Some of the interesting points noticed in audit are summarised in succeeding paragraphs.

CALCUTTA PORT TRUST*

The Calcutta Port complex comprising of Calcutta dock system, riverside jetties and moorings in Calcutta and Buj Buj, Haldia dock system and oil jetty at Haldia has been one of the major ports in India for more than a century. The administration of the port is vested in a Board of Trustees constituted by Government under section 3 of the Major Port Trusts Act, 1963. The Port Trust maintains its accounts and prepares its annual statement of accounts including balance sheet in the form prescribed by Government in consultation with the CAG. The accounts are audited by the CAG and the audited accounts together with the report thereon are forwarded to Government for being laid before Parliament. During the first three Plan periods, development expenditure amounting to Rs. 45.15 crores (excluding debt charges) was incurred by the Port Trust mostly on modernising the equipment, in addition to building 2 general cargo berths inside the dock. As the continued siltation in the river Hooghly had reduced the navigable depth, a barrage across the river at Farakka (conceived in 1961) was constructed at a cost of Rs. 62.70 crores by 1974-75 to ensure regular head water flow into the river throughout the year and to increase and maintain the river depth. A team of experts set up by Government estimated (1965) a total traffic of 19.4 million tonnes for Calcutta Haldia complex by 1970-71. To meet this need and to attract ships of big size, it was decided in 1965 to establish a new port at Haldia nearer the sea with modern facilities to be completed in 1970-71 at an estimated cost of Rs. 36.92 crores; it was completed at a cost of Rs. 203.81 crores and opened to traffic in February 1977, though a river side oil jetty at Haldia started functioning from August 1968 itself. At the

* Para 36 of AR 1978-79 signed by Shri K.C. Das, countersigned by Shri Gian Prakash on 29th February, 1980 and presented to Parliament on 26th March, 1980.

beginning of the Fourth Plan period the handling capacity of the Calcutta Port complex had been increased to 15 million tonnes [Calcutta (12.5), Haldia (2.5)]; it was 22.58 million tonnes in 1978-79.

A summary of the capital and revenue account of the Port Trust for the 5 years 1974-75 to 1978-79 is given below :-

(in crores of rupees)

	1974-75	1975-76	1976-77	1977-78	1978-79
A Assets at the end of each year					
1. Capital assets at cost including works-in-progress	241.88	280.05	329.98	362.32	322.09
2. Deferred charges	1.40	1.36	1.34	1.31	62.64
3. Investments	14.86	14.57	14.42	14.89	16.02
4. Current assets	23.54	33.12	40.57	60.06	71.10
5. Uncovered revenue deficit	36.16	26.04	19.69	26.68	29.43
	317.84	355.14	406.00	465.26	501.28
B Liabilities at the end of each year					
1. Capital debts	194.72	225.17	265.66	291.88	306.33
2. Current liabilities	45.75	50.73	57.02	81.99	94.73
3. Depreciation of capital assets	47.90	50.38	50.88	55.79	61.29
4. Reserve and surplus	29.47	28.86	32.44	35.60	38.93
	317.84	355.14	406.00	465.26	501.28
Revenue and expenditure					
Revenue income for the year	42.14	55.68	59.16	59.33	71.46
Revenue expenditure for the year :					
(i) Cost of rendering services	38.31	39.16	39.40	49.76	44.57
(ii) Management & general administration	3.69	4.10	4.42	5.92	13.71
(iii) Financial & miscellaneous expenditure	6.26	10.75	11.82	9.38	16.37
Total of (i), (ii), (iii)	48.26	54.01	55.64	65.06	74.65
Net surplus(+) Net deficit (—)	—6.12	+1.67	+3.52	—5.73	—3.19

Commencing from 1965-66, the revenue account of the Port Trust showed sizeable deficit (Rs. 47.16 crores) for 10 years consecutively. To implement the recommendations of the Commission on Major Ports (June 1970) that the Port Trusts should achieve an annual rate of return of 12 per cent on capital employed, the port charges were revised upwards on several occasions (9 times during 1974-75 to 1978-79). As a result, the revenue account showed a total net surplus of Rs. 5.19 crores for the year 1975-76 and 1976-77, but thereafter there were again deficits during 1977-78 and 1978-79 aggregating Rs. 8.92 crores. The return achieved with reference to capital employed worked out to (+) 4.27, (+) 9.08, (–) 4.55 and (–) 2.46 per cent respectively during the 4 years 1975-76 to 1978-79. In computing the financial results, the progressive loss of the Port Trust had been understated to the extent of Rs. 28.98 crores as a result of diversion of provision made for depreciation to provision for (i) repayment of loans (Rs. 13.18 crores) and (ii) general sinking fund (Rs. 15.80 crores); these provisions were to have been made directly from the revenues according to the Act.

Till March 1979, the Port Trust had defaulted in payment of debt charges amounting to Rs. 22.95 crores for want of adequate return. Further, as and when necessity arose, the Port Trust obtained ways and means loans from Government which amounted to Rs. 13 crores in 1977-78 and Rs. 4.50 crores in 1978-79.

The aggregate operating results of the various activities of the Port Trust for the 5 years 1974-75 to 1978-79 are shown below :-

(In lakhs of rupees)

	Revenue income	Revenue expenditure	Surplus (+) Deficit (–)
1. Cargo handling and storage	13,555.37	8,125.84	(+)5,429.53
2. Port and dock services	8,757.03	8,988.70	(–) 231.67
3. Port railway	2,103.43	3,136.85	(–) 1,033.42
4. Estate management	1,897.96	868.67	(+) 1,029.29

While the Port Trust had surplus in cargo handling and storage and estate management, it had deficits in port and dock services and particularly in port railway.

The revenue account of the Port Trust showed a substantial deficit (Rs. 47.16 crores) for 10 consecutive years from 1965-66 and after disclosing a total net surplus of Rs. 5.19 crores for the years 1975-76 and 1976-77, the Port Trust suffered total revenue deficit of Rs. 8.92 crores during 1977-78 and 1978-79. As a result the Port Trust could not achieve a net surplus of 12 per cent over capital employed as per recommendation of Major Ports Commission and pay debt charges to the extent of Rs. 22.95 crores upto 1978-79. Surplus earnings of the Port Trust were essentially in cargo handling and storage and estate management; deficits in the port and dock services and port railways aggregated Rs. 231.67 lakhs and Rs. 1033.42 lakhs respectively during 1974-75 to 1978-79. The volume of traffic at Calcutta Port complex declined from 11.06 million tonnes (1964-65) to 7.55 million tonnes (1977-78) and 7.98 million tonnes (1978-79) mainly due to loss in draft available in the river; thus, port handled 11 per cent of total traffic handled by all ports in 1977-78 as against 23 per cent in 1964-65. To attract ships of big size, a new port nearer the sea with modern facilities was constructed at a cost of Rs. 203.81 crores at Haldia. Despite expenditure of Rs. 61.78 crores on various river training works and dredging upto March 1979, the desired level of draft could not be achieved in the shipping channel for Haldia, thus failing to attract big size ships. In July 1978, heavy scouring at Haldia oil jetty was noticed and corrective measures at an estimated cost of Rs. 24.97 lakhs had to be taken up in December, 1978 followed by further measures at estimated cost of Rs. 48 lakhs for permanent repair of deep scour noticed in March 1979. Non-implementation of the recommendations of 2 committees resulted in non-accrual of additional annual income of Rs. 15 lakhs and Rs. 31.33 lakhs for land and buildings respectively from its estate department. The port railways had been running at a deficit ranging from Rs. 2.60 crores (1975-76) to Rs. 4.59 crores (1978-79). The number of days for which the dry docks were vacant was 478 days in 1978-79 against 145 days in 1974-75. The Port authorities assessed in July 1978 that had the dredger "Mahaganga" been supplied to them by the due date of July 1974, it could have saved Rs. 860 lakhs. For conducting High Court cases the Port Trust paid to the counsels at rates 100 to 1100 per cent higher than the standard rates fixed by Government for conducting their suits in Calcutta High Court. A 15-ton unloader crane (cost : Rs. 24.56 lakhs) rolled over and fell into Haldia dock basin due to cyclonic storm in April 1978. The matter about bearing the cost of damages including that of salvage of the crane was in dispute with the supplier. Loss of Rs. 295.79 lakhs arose on account of rent of godown occupied for storing cement imported by a neighbouring country, which remained uncleared, as the cement had caked. The Port Trust stood committeed to incur an estimated extra expenditure of Rs. 9.13 lakhs for construction of a mobile equipment repair shed with an overhead crane.

RESIDENT AUDIT - CALCUTTA PORT TRUST

The audit of annual accounts of Calcutta Port Trust for the year 1986-87 was completed. Besides conventional points of undercharge and over charge, some cases of poor performance, infructuous expenditure, injudicious purchases, blocking up of capital were commented upon. The comments were - delay and additional expenditure in execution of dredged cut over Balari bar in the Hooghly River, undercharge (Rs. 56.22 lakhs) and overcharge (Rs. 23.56 lakhs) in hiring of tugs due to incorrect application of rates, wasteful expenditure of Rs. 8.10 lakhs due to injudicious purchase of electric capstans, extra expenditure due to change of site and delay in handing over the site, poor performance of dredgers (loss of Rs. 1008.85 lakhs), wasteful expenditure in procurement of polyester conveyor belt, unfruitful expenditure on sinking of tube-wells - Rs. 5.21 lakhs, non-commissioning of capstans leading to blocking up of capital and infructuous expenditure (Rs. 32.21 lakhs), poor performance of Dry Docks of the Calcutta Port Trust and review of stores and materials management in Calcutta Dock System of the Calcutta Port Trust. Five paras involving a total monetary effect of Rs. 765.72 lakhs were included in the Audit Report (Civil) 1987- 88.

RESIDENT AUDIT-FARAKKA BARRAGE PROJECT

The contribution by the RAO for AR (Civil) 1987-88 was 11 paras involving a total monetary effect of Rs. 207.63 lakhs. Few of the important paragraphs relating to the Farakka Barrage Project included in AR* (1987-88) on Union Government were as under :

(i) Injudicious procurement of materials : Farakka Barrage project authorities procured materials worth Rs. 22.49 lakhs during April 1980 to June 1984, which could not be used for the purpose for which they were procured. Although materials worth Rs. 6.31 lakhs were utilised in other works, expenditure of Rs. 3.83 lakhs became wasteful, apart from blockade of Rs. 12.35 lakhs on purchase of remaining materials.

(ii) Non-recovery of extra expenditure of Rs. 13.42 lakhs, incurred by the Farakka Barrage Project authorities, in procuring balance quantity of 35,000 cubic meters of boulders at higher rates through another contractor due to irregular rescission of contract for supply of 50,000 cubic metres of boulders within the extended period of contract.

(iii) Avoidable expenditure of Rs. 89.43 lakhs due to irregular grant of interest by arbitrators in six arbitration cases relating to Farakka Barrage Project, with retrospective effect beyond their jurisdiction as

* Paras 66 to 70 of AR Union Government (Civil) for 1987-88 No. 1 of 1989.

reference to arbitration was not made with the intervention of the court and the awards were not challenged in the court of law.

(iv) Delay in execution of Pagla and Bansloi River Basin Scheme : Consequent on rescission of contract, Rs. 28.04 lakhs became recoverable from the contractor executing the work. But the amount could not be recovered, as the whereabouts of the contractor were not known. Besides, Rs. 3.72 lakhs were overpaid to 2 other contractors as escalation payments due to wrong calculation of the amount so paid. The scheme to be completed by June, 1980 had not been completed till September 1988, after incurring a total expenditure of Rs. 4.68 crores against a revised estimate of Rs. 5.67 crores. The original estimate sanctioned was for Rs. 4.12 crores as of January 1979. Had the scheme been completed in time, the extra expenditure could have been avoided.

RESIDUARY WORK

Even after departmentalisation of union accounts, the DA continued to compile accounts and issued authorisation of both service and freedom fighters pension through public sector banks and treasuries. In respect of Central Pensions in West Bengal Circle paid by the various public sector banks/treasuries located outside Calcutta, the pension vouchers and scrolls were received from treasuries (about 49 in 1987-88) together with their monthly accounts. As regards the payment through the Public Sector banks in Calcutta, the banks claimed their reimbursements against their own payments of central pension from RBI, Calcutta, who in turn submitted the relevant daily sheets, scrolls etc. from PSBs to the DA. The civil accounts compiled from these transactions were sent to the CGA each month by scheduled date for incorporation in the accounts of Union Government. A unit called pension Assistance Cell started functioning from 22nd March 1988 to render help to the pensioners and family pensioners. The turnover of pension cases was 4136 in 1985-86, 4259 in 1986-87 and 4103 in 1987-88.

Material for the preparation of Union Finance Accounts, like (i) statement of central transactions, (ii) statement of charged and voted expenditure in respect of central pensions of W.B. Circle, (iii) statement No. 7 and 15 etc., (iv) Appropriation Accounts in respect of central pensions of West Bengal Circle, (v) Audit Certificate on the Appropriation Accounts of ANI Administration, and (vi) Audit Certificate and audited material on the Finance Accounts of ANI Administration, are sent to CGA, New Delhi, and DACR, New Delhi. Total number of authorities issued during the year 1987-88 upon Treasuries and Banks was: (i) Service Pension and Gratuity including *ex* *gratia* payments of pensionary nature - 8821, (ii) Swatantrata Sainik Samman Pension (Freedom Fighters' Pension) - 3076.

The sanctioned strength in March, 1988 was 1123 - 7 IAAS officers, 115 Audit officers, 206 AAOs, 53 SOs, 358 Sr. auditors, 89 auditors, 98 clerks, 16 stenographers, 23 record keepers, 8 others, and 150 group 'D'. The *defacto* strength was 971 due to vacancies in the cadre of AAOs, Sr. auditors, auditors and clerks. The expenditure of the office for 1987-88 was Rs. 365.68 lakhs.

ACCOUNTANT GENERAL, CENTRAL, BOMBAY

The office of Accountant General, Central, Bombay was carved out of the A.G., Maharashtra in September 1971 to deal with the accounting and audit of the transactions of the Union Government arising in Maharashtra circle, other than those entrusted to the Office of the then A.G., C.W. & M., and audit of the transactions of the Union Territory of Goa, Daman and Diu and Bombay Port Trust and the Department of Atomic Energy. The personnel engaged on these items of work in the office of the A.G., Maharashtra, about 800, were transferred to the newly created office (41 AOs, 140 SAS, 430 SGCs/UDCs, 47 LDCs and 70 class IV). Shri K. Ramakrishna Ayyar was the first A.G. of the newly created office, who was assisted by 3 group officers *viz.* Sr. DAG(S & D) in charge of the Department of Atomic Energy, Sr. DAG(RA) in charge of Revenue Audit (Central) and OAD (Civil) and DAG (Administration and Central) in charge of administration of the office, as also accounts and entitlement and other miscellaneous items of work. The accounting and entitlement functions performed by the Office relating to the Union Government was transferred to the Departments in 1976 along with the officers and staff. The strength of the office in 1977 was 1371 - 91 officers including IAAS and 1280 non-gazetted. The audit of Scientific Departments was transferred to the Additional AG (Scientific Departments) in December 1973. The designation of the office was changed to Director of Audit (Central) in April 1979. In all, 13 officers held the post of AG/DA, ranging from 6 months 14 days to 5 years 2 months and 20 days, held by Shri T.C. Krishnan.

FUNCTIONS

The Director was responsible for the audit of all the Central Departments in Maharashtra region except the departments under the Ministry of Commerce and Supply and Scientific Departments, Central Commercial Departmental Undertakings in Maharashtra, all receipts of Direct and Indirect Taxes of the Central Government in Maharashtra and Goa and Union Territory of Daman and Diu, except central excise in Vidarbha region and direct taxes in the State of Goa and Union Territory of Daman and Diu, receipts and expenditure of the State of Goa and Union Territory of Daman and Diu and work relating to Audit Report, Appropriation Accounts and Finance Accounts of the State of Goa, accounts of Bombay Port Trust, Mormugao Port Trust and Nhava - Sheva Port Trust and accounts of several other autonomous bodies like Khadi and Village Industries Commissions, Indian Institute of Technology, Bombay, NITIE, VRCE etc. While Director and his secretariat were located at Worli, his Joint Director/Deputy Director in charge of various groups were distributed over several buildings at different locations.

GROWTH AND EXPANSION

The total revenue receipt of all central revenues in the circle was Rs. 307 crores in 1970-71. The Revenue Audit branch had 8 sections in headquarters and 43 parties in the field comprising 25 AOs, 82 SAS accountants, 122 UDCs and 148 LDCs. After the CAG's Act came into force, 2 sections in headquarters with 1 AAO and 16 AOs parties were added, which increased the strength to 248 - 109 SAS, 123 UDCs and 16 LDCs. The total revenue receipts of Income-tax etc. were of the order of Rs. 377.58 crores in 1972-73, under the charges of 13 C.I.Ts. in Bombay and 4 in Maharashtra. The I.T.R.A. wing had 23 field parties and one section at headquarters with a total strength of 132 (14 AOs, 42 SAS, 68 SGCs/UDCs and 8 LDCs). The receipt under Income-tax, Wealth tax, Gift tax in Maharashtra Circle was Rs. 721 crores in 1975-76 and Rs. 1604.29 crores in 1977-78. The number of parties increased to 49 with 38 AOs, 87 SOs and 105 auditors. The income tax receipt was Rs. 2076.07 crores in 1987-88. There were 35 field parties in 1984-85 and 36 in 1986-87 but decreased to 33 from 1987-88 onwards with 31 AOs, 21 AAOs/SOs and 66 auditors in the field. The number of units audited was around 717. 376 Reports with 2806 items of the monetary value of Rs. 19.74 crores were issued in 1984-85 and 436 reports with 3424 items amounting to Rs. 57.09 crores were issued in 1987-88. The average turn over of inspection reports issued during the last four years was 422 with 3437 items with the monetary value of Rs. 33.97 crores. The number of reports issued after local audit of wealth tax wards varied from 189 with 523 items of the monetary value of Rs. 25.24 lakhs in 1984-85 to 230 Reports with 540 items of the monetary value of Rs. 68.02 lakhs in 1987-88. The average number of reports issued each year was 212 with 564 items of the monetary value to Rs. 39.20 lakhs. In Gift tax, while during 1983-84; 49 reports with 56 items of the monetary value of Rs. 1.38 crores was issued in 1984-85, 37 reports with 48 items of the value of Rs. 2.52 crores were issued in 1987-88. The average number of reports issued was 41 with 49 items of the value of Rs. 104.55 crores. Under Estate Duty, 16 reports with 129 items of the total value of Rs. 9.98 lakhs in 1984-85 and 11 reports with 36 items of the value of Rs. 5.94 lakhs were issued in 1987-88. The average number of reports issued was 12 with 67 items of the monetary value of Rs. 5.24 crores. 16% of the turnover of inspection reports under income-tax and wealth tax, 22% under gift tax and 26% under estate duty were settled during the period. 2606 reports containing 10757 items of the monetary value of Rs. 105.68 lakhs under Income-tax, 1151 items with 1736 cases of the monetary value of Rs. 225 lakhs under Wealth tax, 190 reports with 256 items with monetary effect of Rs. 588 lakhs under Gift tax and 313 reports with 1163 items with monetary effect containing 12019 objections with a money value of Rs. 207 lakhs were outstanding in March 1988. 831 paras involving monetary effect of Rs. 5399.71 lakhs and 13 reviews for the Audit Reports 1978-79 to 1986-87.

CONTRIBUTION TO AUDIT REPORTS

The contribution during last seven years for AR on Direct Taxes was as under :

Audit Reports	Corporation Tax		Income Tax		Other Direct Taxes	
	Paras	MCP	Paras	MCP	Paras	MCP
1981-82	1	24	1	8	-	10
1982-83	-	33	2	6	-	7
1983-84	4	56	1	16	-	7
1984-85	1	88	1	18	1	14
1985-86	4	86	1	24	-	11
1986-87	3	77	-	19	-	3
1987-88	4	92	2	14	1	10

Apart from furnishing material for "System Appraisal" for AR 1987-88, three reviews were conducted, namely, Sur Tax Pendency in assessments and arrears of sur tax, wherein the extent of delay in completing sur tax assessments after the connected income tax collection of sur tax demands were assessed with reference to selected case studies; working of the Departmental Treasury Units, wherein a study of the entire machinery employed for the collection and accounting of taxes was reviewed and shortcomings and deficiencies in the existing system highlighted and review of the Summary Assessment Scheme, wherein the short comings of summary assessment scheme under Section 143(1) of the Income Tax Act, 1961 were highlighted.

SELECTED COMMENTS

Some of the interesting points noticed during audit are summarised below:

PROPERTIES ATTACHED AND AWAITING DISPOSAL

A review* of records relating to moveable properties attached revealed that as at the end of March 1986 in four Commissioners' charges, 2578 properties attached towards recovery of tax of Rs. 768.23 lakhs were awaiting disposal, which included ten year old cases of 104 properties. 2578 moveable properties (valued at Rs. 72.11 lakhs) in respect of 85 defaulters towards recovery of tax arrears of Rs. 768.23 lakhs were attached and pending disposal as on 31st March, 1986. A review conducted in 34 Tax Recovery Officers' charges revealed that moveable properties of furniture, machinery and motor cars were attached but were kept with the defaulters on the execution of sapurdnamas. In two cases, the amount involved was Rs. 5.05 lakhs covering the assessment years 1974-75 to 1978-79 and Rs. 63.74 lakhs covering the assessment years 1977-78 to 1982-83.

In the first case, furniture of the value of Rs. 4,425 was attached in March 1982 from Office premises and Fridge, Tape Recorder, Radiogram, steel cupboards etc. valuing Rs. 43,400 were attached from the residence of the partners. The tenancy rights of the partners were also attached. Bank accounts were attached in April 1984 but there was no balance in the accounts. The defaulter had been asked to bring all the moveable properties attached to the Income-tax office or alternatively to pay arrears of taxes. In October 1984, the defaulter was intimated that coercive measures including arrest and detention would be taken in case of default. There was no further development of the case till April 1987 as regards the moveable properties attached. In the second case, the tax recovery certificate was issued in October 1982. The arrears were permitted to be paid in instalments of Rs. 2.5 lakhs by the Commissioner of Income Tax (Recovery) in January 1983. As the assessee defaulted, moveable property comprising 35 items (value not known) was attached in February 1984. The instalment scheme was cancelled in November 1985. The Central Board of Direct Taxes had stayed the payment of interest of Rs. 22.04 lakhs payable for non/under payment of advance tax under Sections 215 and 217 of the Income tax Act. The arrears pending as on 31st March, 1986 was Rs. 51.52 lakhs including Tax Recovery Officers' interest of Rs. 15.91 lakhs.

* Para 1.07.03 of AR 1985-86 Union (Civil) Revenue Receipts Vol. II (Direct Taxes) finalised on 21st April, 1987 and presented to Lok Sabha on 8th May, 1987.

FAILURE* TO REFER CASES TO VALUATION CELL FOR DETERMINING THE FAIR MARKET VALUE

Under the Wealth-tax Rules, effective from 1st January, 1973, a reference may be made to the Departmental Valuation Officer, if the assessing officer considers that the fair market value of a property exceeds the returned value by more than 33 1/3 per cent or Rs. 50,000 whichever is less. Similar references are also to be made by the assessing officers under the provisions of Income tax Act/Gift-tax Act for determining valuation of property or the cost of construction either for acquiring the property by the Department or to determine the undisclosed investment by the assessee or the value of the gift returned short. Where such a reference is made under the Wealth-tax Rules to the Valuation Officer, it is obligatory on the Wealth-tax Officer to complete the assessment in accordance with the valuation of the Departmental Valuation Officer.

An assessee declared the value of a property at Rs. 1.60 lakhs as on the valuation date 31 March, 1979 in his Wealth-tax returns for the assessment year 1979- 80. For the subsequent assessment years, the value of the property was declared by the assessee as Rs. 2.20 lakhs on the basis of the registered valuer's certificate. Not agreeing with the valuation, the Wealth-tax Officer referred the case to the Valuation Cell for determining the fair market value of the property. The Assistant Valuation Officer valued the property at Rs. 3.30 lakhs as on 31 March, 1979 and the Wealth-tax assessments for the assessment years 1979-80 to 1985-86 were completed by the Wealth-tax Officer on this value. According to the provisions of the Act and the upward market conditions in the eighties, the valuation determined by the Valuation Cell could be adopted for a period of three years and the case should have been referred to the Valuation Cell thereafter for determining the fair market value, so that the value of the property as assessed would be realistic. Accordingly, the case was required to be referred to the Valuation Cell in 1981 and in 1984. Failure to refer the case to the Valuation Cell and adopting the same value for 8 long years had led to gross under valuation of the property.

For the assessment years 1980-81 to 1982-83, the value of properties located in two cities were declared by the assessee at Rs. 2.65 lakhs on the basis of a certificate issued by a registered valuer and the wealth-tax assessments for these years were completed accepting the valuation of the property as declared by the assessee. On audit pointing out the apparent

* Para 1.15.10(b) of AR Union Government (Civil) Revenue Receipts Vol. II (Direct Taxes) 1985-86.

low valuation of the properties, the Wealth-tax Officer referred the case to the Departmental Valuation Cell which determined the value of the property at Rs. 19.47 lakhs for the assessment year 1980-81, Rs. 21.66 lakhs for the assessment year 1981-82 and Rs. 22.71 lakhs for the assessment year 1982-83. Failure to refer the case to the Departmental Valuation Cell resulted in under assessment of wealth of Rs. 55.40 lakhs involving short levy of Rs. 1.39 lakhs. The assessments were reported to have since been rectified raising additional demand of Rs. 1.39 lakhs.

**Under valuation of properties by the Departmental Valuation Cell* : According to the guidelines issued for valuation of immovable properties by the department, in the case of cinema, hotels, factories, etc. leased rent should be taken into account if the building is leased outright ensuring that the rent charged is comparable to the prevailing market rent for similar properties. In a case, where the rent is deliberately kept low or being let out to close relations etc., the prevailing market rent or profit earning capacity should be taken into account. A cinema theatre was run by an assessee till March 1971. By an agreement dated 1st April, 1971, the cinema with fixures and furniture was given on lease to a partnership firm consisting of himself, his wife and married daughter, the assessee having 50 per cent share in the firm. The lease rent was fixed at Rs. 3,500 per month. The assessee retired from the firm in June 1971 and the partnership was continued by the other two partners. The lease rent was raised to Rs. 5,000 in 1976. In the Wealth-tax return for the assessment year 1983-84 (valuation date 31st March, 1983) the value of the cinema theatre was declared at Rs. 3,67,685. The case was referred to the Valuation Officer for determining the fair market value of the property by the Wealth-tax Officer stating, *inter alia*, that the theatre building owned by the assessee is let out to an exhibitor firm consisting of the assessee's wife and assessee's married daughter. In view of the near relationship between the lessor and lessee the rent is shown at a very low figure as against the higher rent potential for the type of building. Adopting rent capitalisation method, the Valuation Officer determined in April 1986 the value of the cinema at Rs. 6,34,000 as on 31st March, 1983. On the registered valuer objecting to the capitalisation of rent at Rs. 5,000 p.m. on the ground that the rent of Rs. 3,500 fixed on 1st April, 1971 should alone be considered without any increase thereto, the Valuation Officer stated that the rent of Rs. 3,500 was not fixed by any competent authority and the rent agreed in April 1971 could not be

* Para 1.15.11 of AR 1985-86 Union Government (Civil) Revenue Receipts Vol. II.

taken as standard rent. However, the main question whether in view of the close relationship between the parties, the rent of Rs. 5,000 itself could be considered as reasonable as on the date of valuation, was not examined by the Valuation Officer in the light of the guidelines issued in this regard. Taking into account the profit made by the firm as on 31st December, 1982 at Rs. 77,500, this should have been considered for capitalisation instead of rent at Rs. 5,000 p.m. The yield capitalisation would have resulted in increase in the value of property by Rs. 1,70,000. To a query whether the revised lease charges agreed to in 1976 were collusive or deliberately low, the valuation officer stated that this should be examined with reference to the normal returns for such property in 1976 and not in 1982 and 1983. But as the property was to be valued as on 31st March 1983 being the valuation date, whether the rent derived from the property on that day was low or collusive rent should have been considered.

Properties situated in two plots along with plant and machinery agreed to be sold by an assessee on 4th November, 1985 for a consideration of Rs. 41 lakhs was referred by the Inspecting Assistant Commissioner to the Valuation Cell in January 1986 for determining the fair market value of the property as on 4th November, 1985. Applying the physical valuation method, the District Valuation Officer determined the value at Rs. 26.16 lakhs. The sale consideration of Rs. 41 lakhs included the value of plant and machinery and in the absence of break-up of Rs. 41 lakhs between land and buildings and the plant and machinery, the value of Rs. 26.16 lakhs could not be compared. In reply to audit query, the District Valuation Officer stated that the break-up of the figures was not indicated by the parties to the transaction. Neither the Inspecting Assistant Commissioner furnished the break-up value of the sale consideration. The Inspecting Assistant Commissioner, accepting the absence of the break-up of the figures, stated that the question of valuation of plant and machinery would be referred to a separate wing.

The President and Managing Trustee of a Foundation run by the head of a religious sect in Pune was in default in the payment of Income-tax and Wealth-tax to the extent of over Rs. 3.89 crores. The Income-tax Officer attached 4 plots of land under the occupation of the Foundation towards recovery of the tax arrears, and passed on the case to the Tax Recovery Officer to initiate recovery proceedings. The plots of land were valued by a registered valuer on 10th January 1980, as under :

Valuation date	Value determined by a registered valuer
31-12-1974	Rs. 15,92,182
31-12-1975	Rs. 18,79,613
31-12-1976	Rs. 39,36,855
31-12-1977	Rs. 41,60,915

The Tax Recovery Officer referred the case for valuation of these lands to the valuation officer to determine the fair market price as well as the reserve price. The valuation officer directed the foundation in November, 1985 to submit the necessary documents for estimating the fair market value of the lands. In December 1985, the trustees of the foundation submitted a note on the ownership of the property which indicated that the properties were only in its occupation and it was not the legal owner. The trustees also furnished a copy of the lease deed leasing the property to an Ashram connected with the foundation. The trustees stated that the total land area was 2,19,300 sq. ft. and a rent of Rs. 2,25,000 was being recovered from the property. Adopting the rent capitalisation method, the valuation officer valued the property in February 1986 at Rs. 31.18 lakhs much lower than the valuation made as on 31st December, 1976 and 31st December, 1977 by the registered valuer. The valuation made by the valuation officer was grossly under valued by adoption of the rent capitalisation method. The lease agreement was in the nature of lease and licence agreement covering a period of eleven months initially and extended from time to time. Considering the closeness of the lessee, the Ashram, and lessor, the Foundation, it was not in order to resort to capitalise the rent in perpetuity. The valuation officer in his letter of February 1986 stated, that if tenancy was to be ignored the value of the property would be much more, and the value be determined by land and building method, which would be much higher. For this purpose the valuation officer sought for a specific reference from the Tax Recovery Officer. The Tax Recovery officer had not followed it up. The value of the property was shown at Rs. 44.32 lakhs in the balance sheet of the foundation as on 31st December, 1981. The value of these lands was determined at Rs. 41.61 lakhs as on 31st December, 1977 by the registered valuer. The value of the land determined by the valuation officer at Rs. 31.18 lakhs was apparently lower by any standard.

For the assessment year 1983-84, the value of a property situated at Bombay which was jointly owned by 19 owners was returned for Wealth-tax purposes at Rs. 8.55 lakhs as on the valuation date, 31st March, 1983, the value of each share being Rs. 45,000 (in the Joint Property). The assessing officer in Delhi in whose jurisdiction the assessments of the co-owners were to be made referred the case to the Departmental Valuation Officer at Bombay in January 1985 for determining the fair market value of the property as on the valuation dates 31 March 1980, 1981, 1982, 1983 and 1984. By applying the physical valuation method, the valuation officer, Bombay, valued the property as under :

Valuation date	Valuation determined
31-3-1980	Rs. 9,17,000
31-3-1981	Rs. 10,64,000
31-3-1982	Rs. 12,11,000
31-3-1983	Rs. 14,39,000
31-3-1984	Rs. 17,12,000

A search and seizure in the premises of some of the co-owners had revealed that a part of the property at Bombay had been sold to a public enterprise in April - May 1985 for a price of Rs. 85.00 lakhs. The assessing officer, therefore, requested the valuation officer for a review of his valuation so that the gross under-valuation of the property could be corrected. The valuation officer refused to review the case on the ground that the acquisition by Government or Semi-Government body was for specific purpose and the compensation paid did not represent the market value of the land and would not be more than Rs. 3.37 lakhs for any private bidder and as the value of land for each co-owner was less than Rs. 2 lakhs, the valuation was to have been made by the Assistant Valuation Officer and the valuation having actually been done by the next superior authority it did not call for any review. The reasons given by the Valuation Officer were not tenable as the compensation was determined with reference to the market conditions and did not reflect a purchase and the value of the property was returned in the Wealth-tax returns for the assessment year 1983-84 at Rs. 8.55 lakhs. The value being more than Rs. 2 lakhs but less than Rs. 10 lakhs, the property was also rightly valued by the Valuation Officer and further review by the District Valuation Officer was possible. The Valuation Officer further stated that after considering the whole property for determing the value, the individual share was to be arrived at after reducing the value by 10 per cent. A further reduction of 15 per cent was allowed by the Valuation Officer towards open space to be reserved for recreational purposes. It would not be correct to allow both the deductions when the property was to be individually valued for wealth tax purposes as the individual share in the plot of land by each co-owner was less than 3,000 sq. yds. The provision of open space as prescribed for recreational purposes was to be applied to a plot of land exceeding 3,000 sq. yds. in area.

SUMMARY ASSESSMENT PROCEDURE

With effect from 1st April, 1971, the procedure of regular assessments under the Income-tax Act was streamlined and a new procedure was evolved whereby the Income-tax officer was empowered to complete a regular assessment in a summary manner on the basis of income or loss returned by making the prescribed adjustments. The new procedure did not require the verification of the correctness and completeness of the return. The assessment under the scheme, described as summary assessment or it might be reopened by the Income-tax officer for a *denovo* regular assessment :

(i) *In order to ensure that the provisions of the summary assessment scheme are not abused, the Board issued instructions in June 1984 and June 1985 according to which 5 per cent of the cases assessed in a summary manner would be taken up for a thorough scrutiny on a random sample basis and the required number of cases would be selected in the month of August as prescribed. The instructions required the Commissioner of Income-tax to furnish a certificate to the Director of Organisation and Management Services (DOMS-IT) by 15th September of the year that the aforesaid selection had been made. The cases selected during a year were also to be disposed of during the year. The scheme also contemplated that some of the cases finalised under the sample scrutiny should be reviewed by the Inspecting Assistant Commissioners during their annual inspections. The inspection division of the Board, during their tours, was also expected to verify whether the sample scrutiny procedure had been followed and submit a report to the Board. A test check of records of Bombay circle revealed that in 13 units, no sample scrutiny was conducted and in another 14 units, the percentage applied were less than the prescribed percentage of 5 per cent.

(ii) @According to the instructions issued by the Board in May 1985, apart from ensuring the arithmetical accuracy of the computation

---

* Para 3.1.13 of AR 1986-87 No. 6 of 1988 Union Government (Revenue Receipts - Direct Taxes).

@ Para 3.1.16 *ibid.*

of the total income and tax and liability for interest, etc., no other checking of any sort would be necessary. These instructions did not require verification of the correctness of the amount of losses, deficiencies etc., determined in earlier years for carry forward in so far summary assessments are concerned. Irregularities in carry forward and set off of losses were noticed. In one case for the assessment year 1984-85, a loss of Rs. 0.22 lakh arrived at after deducting the brought forward losses of Rs. 1.88 lakhs in respect of previous years from the taxable income of Rs. 1.66 lakhs was accepted as returned, though the correct loss to be carried forward and adjusted as per records was Rs. 0.56 lakh only (undercharge of tax of Rs. 0.64 lakh including interest leviable). In another case, the returned income of Rs. 5,000 for assessment year 1983-84 after adjusting business losses of assessment years 1973-74 and 1974-75 was accepted, though these losses incurred beyond eight assessment years preceding were not available for set off under the Act (short levy of tax of Rs. 0.27 lakh).

(iii) *There were cases of irregular allowance, deduction or exemption. A firm debited in its profit and loss account for the assessment year 1984-85, a sum of Rs. 80,925 as interest on partners' loans which was not disallowed (short levy of tax of Rs. 57,643). In its profit and loss account for the assessment years 1983-84 to 1985-86, a firm debited Rs. 72,000 each as amount paid towards the goodwill of the retiring partners. The capital expenditure was, however, not disallowed. (Under charge of tax of Rs. 33,662 in the hands of the firm). A partner of a firm was assessed on an income of Rs. 65,000 as declared for the assessment year 1984-85, which was computed after deducting an amount of Rs. 64,174 under Section 80 HHC. As the firm is the exporter entitled to the deduction and not the partner and the firm's assessment had not been completed at all time of partner's assessment, the irregular deduction resulted in short levy of tax of Rs. 41,628. In the case of a salaried assessee for the assessment years 1983-84 to 1985-86, aggregate expenditure of Rs. 83,960 (revenue effect Rs. 45,090) was allowed as expenses incurred against commission earned from the employer, though the commission was assessable as salary qualifying only for standard deduction. A company was allowed deduction for inter-corporate dividends for the assessment year 1985-86 on the gross amount of dividends without considering the amount of interest paid in earning the dividend. As no dividend income is left after deducting interest paid, the deduction of Rs. 76,523 allowed involved a short levy of tax of Rs. 52,222.

* Paras 3.1.18, of AR 1986-87 No. 6 of 1988 Union Government (Revenue Receipts - Direct Taxes).

The expenditure incurred by the ITRA wing in 1986-87 was Rs. 0.78 crore, which constituted approximately 0.01% of the turnover of Income tax receipts of the year in the circle.

AUDIT OF CENTRAL EXCISE

At the time of the formation of the office, the Central Excise receipt was Rs. 37.7 crores under the Collectorates of Bombay, Poona, Aurangabad and Goa, which rose to Rs. 82.05 crores by 1974-75, the average during the preceding four years being Rs. 238.33 crores. 19 parties with 11 AOs, 40 SOs and 30 auditors carried out local audit in the field. The sanctioned strength of the wing was 1 JD, 11 AOs, 40 AAOs/SOs and 32 auditors distributed over four units at headquarters and 8 field parties. While 2 Audit officers, 6 AAOs/SOs and 12 auditors functioned in headquarters sections, 8 AOs, 14 AAOs/SOs and 19 auditors functioned in the field. The number of Central Excise ranges audited varied from 248 in 1984-85 to 284 in 1987-88, the average number being 283. During the year 1987-88, 1840 units were audited in Bombay, Pune, Aurangabad and Goa collectorates. 263 Reports consisting of 1222 paras were issued during the year. Twelve 'NIL' reports were issued during the year. The table below indicates the details of audit objections raised and cleared during the year.

	Number of Reports	Number of paras	Money value (Rs. in lakhs)
Outstanding as on 1st April 1987	514	1158	3912.51
Addition during the year	263	1222	8979.77
Settled during the year	211	838	2822.15
Outstanding as on 31st March 1988	566	1542	10070.13

The number of reports issued varied from 248 in 1984-85 to 284 in 1987-88, on an average of 283 per annum. 505 reports of the total money value of Rs. 22.95 crores were outstanding in March 1987, of which 41% related to the period prior to 1983-84, 45% to 1984-85, 14% to 1985-86. 320 paras of the monetary value of Rs. 8,205 lakhs were contributed in the ARs on IDT for 1980-81 to 1985-86. The contribution made for the last six years was as under :

Audit Report	Paras	MTUA
1982-83	73	26
1983-84	75	15
1984-85	26	13
1985-86	40	24
1986-87	21	25
1987-88	20	17

Review on "Modvat Scheme" was conducted during the year, 1987-88. Important paras/reviews contributed are explained below.

Vegetable products manufactured using rice bran oil as input were allowed exemption from payment of Central Excise duty to the extent specified and subject to fulfilment of conditions laid down by Government. A review* conducted in 1982-83 in respect of selected units manufacturing such vegetable products to find out whether the exemption availed of by the manufacturers was correct revealed irregular availment of exemption involving revenue loss of approximately Rs. 30 lakhs.

Excisable goods cleared as non-excisable or without obtaining any licence by the manufacturers:* A small scale unit purchased raw mutton tallow from butchers and melted the same with the aid of steam and electric power. Thereafter sulphuric acid and sodium chloride (common salt) were added, by which process the mutton tallow became very white and odourless, known in the market as "collar white mutton tallow". This product was cleared without payment of duty during the period from October 1979 to October 1983 resulting in loss of revenue of about Rs. 16 lakhs. On this being pointed out in audit (June 1985), the department did not accept the objection and stated that removal of impurities and bad odour did not amount to manufacture as no chemical change took place and no new product had emerged. The department's reply is not acceptable. The product after refining conforms to the I.S.I. specifications and it is used in textile industry as sizing material. The product before refining is known as 'raw mutton tallow' and the processed mutton tallow known as "collar white mutton tallow". Thus a different article having a distinct name and character emerged from the raw mutton tallow after certain processes using power. CEGAT decided in April 1983 that hardened technical oil obtained by the process of hydrogenation was a manufactured product falling under tarill item 68.

* Para 2.39 of AR 1983-84 Union Government (Civil) Revenue Receipts Vol. I.
* Para 2.14(i)(a) of AR (Revenue Receipts) 1985-86. Vol. I., Indirect Taxes.

On the ratio of the said decision purification of raw mutton tallow by melting and mixing with sulphuric acid and sodium chloride was also a manufacturing process and the manufactured product obtained is liable to duty under tariff item 68.

The Ministry of Finance while not accepting the objection stated (November 1986) that as per Bombay Textile Research Association's opinion raw mutton tallow and the purified/processed mutton tallow are identical in properties. They added that as for the chemical properties are concerned there is no different between the two and both can be used for one and the same purpose and in the instant case by purifying the raw mutton tallow, the chemical properties had not changed and the resultant articles had not lost its essential character. The Ministry's reply was however, silent on the point that the product after refining conformed to the I.S.I. specifications and it was used only in textile industry as sizing material. Moreover, the product before refining was known as "raw mutton tallow" and the processed mutton tallow was known as "collar white mutton tallow". Thus, a different article having a distinct name and character emerged from the raw mutton tallow after certain processes using power.

*After sales service charges***: A manufacturer of agricultural tractors (falling under tariff item 34) sold the products mainly through dealers, appointed by the assessee and at prices not higher than the maximum retail prices fixed by the assessee. The dealer's margin was the difference between the retail price and the price to the dealer which varied from Rs. 2,950 to Rs. 3,650 per tractor depending upon the type of tractor sold. As per the agreement entered into between the assessee and the dealer, the dealer shall advertise and display at his own expense the said products and also provide adequate and satisfactory service for them. Such expenses towards promotion of sales and after sales services are includible in the assessable value. Non-inclusion of that portion of dealer's margin which represented such expenses resulted in underassessment of duty, the exact amount of which could not be worked out for want of details. However the short payment of duty was estimated at Rs. 44 lakhs for the period from April 1983 to December, 1984. On the mistake being pointed out in audit (May 1985), the department stated (July 1986) that the divisional Assistant Collector was being asked to raise the demand in case dealer's commission was accountable towards the after sales service. The Ministry of Finance stated (November 1986) that the demands for Rs. 3,80,46,280 for the period

** Para 2.17(i)(a) of Audit Report (Revenue Receipts) 1985-86. Vol. I., Indirect Taxes.

from 1 August 1980 to 31 October 1985 had been raised and were pending finalisation.

Polyurethane foam@: On polyurethane foam, duty was leviable under tariff item 15A(4). As per Section 2(f) of the Central Excises and Salt Act, 1944 the term "manufacture" includes any process incidential or ancillary to completion of a manufactured product or to render the product marketable. As per notification issued on 29 May 1971 as amended by another notification dated 28 April 1973, articles made of polyurethane foam other than those specified in the schedule to the notification, including sheets and sheetings etc., are fully exempted from payment of duty provided that such articles are produced out of duty paid polyurethane foam. An assessee engaged in the manufacture of polyurethane foam had two units; in the first unit the polyurethane foam was being manufactured in the form of "Loaf of Bread" and was cleared on payment of duty under tariff item 15(A)(3) to his second unit situated elsewhere for cutting into standard marketable sizes, in the second unit, no duty was paid on the cut lengths on the ground that 'cutting' would not amount to manufacture. It was seen in audit that the manufactured goods when cleared from the factory were in the form of cutting and sheetings and the cutting unit had also sold the foam as "sheets and sheetings" of different sizes. The goods so cleared from the factory were not eligible for exemption under the notification dated 29 May 1971. This resulted in escapement of duty to the extent of Rs. 1.22 crores for the years 1984-85 and 1985-86 after allowing adjustment of proforma credit of duty paid on input goods.

On this being pointed out in audit (February 1985), the department and the Ministry of Finance did not accept the objection and stated (june and November 1987) that the issue had already been decided by Government of India under their review order No. 1267 of 1986 [1982-ELT651/(GOI)] wherein it was held that no futher duty was leviable on polyurethane foam in small blocks of different standard sizes made out of duty paid different standard sizes made out of duty paid foam. This reply is not acceptable because as per Section 2(f) of the Central Excises and Salt Act, 1944, "manufacture" includes any process incidential or ancillary to completion of a manufactured product or to render the product marketable. Further, since the Parliament has specifically included "articles made of polyurethane foam" as sub item 15A(4) in the Central Excise tariff and since such article include "sheets and sheetings" its validity cannot be questioned on the ground that it would not amount

@ Para 4.13(ii) of AR (Revenue Receipts) 1986-87. Vol. I., Indirect Taxes.

to manufacture. The ratio of the judgment of Bombay High Court in the case of M/s. Kores (I) Ltd. Vs. Union of India (1982 ELT 253 Bombay) is that the process of cutting large rolls of paper into specific sizes and dimensions and to roll them into teleprinter rolls with the aid of power driven machine amount to "manufacture" lends support to the audit observation that polyurethane foam in the form of 'loaf of bread' would fall under tariff item 15A(3) and after their cutting into standard marketable sizes they would be covered under tariff item 15A(4). It was also noticed that an assessee in another collectorate was paying duty on naked 'sheets and sheetings' as articles of foam. There has to be uniformity in the application of the Excise Law throughout the country.

Goods Cleared as Non-Excisable or without obtaining Central Excise Licence—Ocean going vessels—barges@@: Prior to 28 February 1986, cruise ships, excursion boats, ferry boats, cargo ships, barges and other similar vessels for the transport of persons or goods were classifiable under erstwhile tariff item 68 with rate of duty at 12 per cent ad valorem. From 28 February 1986 they are classifiable under sub-heading 8901.00 of the schedule to the Central Excise Tariff Act, 1985 with rate of duty at 15 per cent ad valorem. As per a notification issued on 1 Novermber 1982 and another on 10 February 1986 (effective from 28 February 1986) "ocean going vessels" were exempted from payment of central excise duty. The term ocean vessels' has not been defined in the Central Excise Tariff. However, as per a clarification given by the captain of ports, Panaji, Goa on 4 November 1987, the barges manufactured in Goa are not 'ocean going vessels' as they were not built and registered under the Merchant Shipping Act, 1958 and were registered under the Inland Vessels Act, 1917. Barges are, therefore, not covered under the aforesaid notifications of 1 November 1982 and 10 February 1986. All the barge units in Goa collectorate, were clearing the barges on payment of duty under erstwhile tariff item 68. Based on the Central Board of Excise and Customs clarification issued on 14 February 1984, extending the scope of the word 'ocean going vessels' given in a customs notification dated 23 July 1983 to the central excise notfication dated 1 November 1982, and after the Bombay High Court's judgment (Panaji Bench) dated 15 July 1985 in the case of M/s. G.R. Engg. Co. Panajai, all the barge units in Goa were delicensed by the Central Excise department. It was observed during audit that the barge units did not have the capacity, technical know-how or expertise or qualified marine engineering staff to design

@@ Para 3.13(ii) of AR (Revenue Receipts) 1987-88. Vol. I., Indirect Taxes.

and build ocean going vessels as per international standards. As such ratio of the judgment delivered in the case of M/s. Vipul Shipyard, Bombay *Vs.* Collector of Central Excise Bombay (1984 ECR 1445) was not applicable to all motor boats/barges/ motorised country crafts building units. Since these vessels were mainly sutiable for river/ferry/coastal service, they did not qualify for the grant of licence under Section 406 of the Merchant Shipping Act, 1958. Denovo examination of all the barge units delicensed by the department was, therefore, necessary to ensure their eligibility for exemption on merit of each case.

On the matter being pointed out in audit (November 1985) the department stated (April 1987) that as these barges were vessels for transport of iron ore they were covered by the definition of 'ocean going vessels' as clarified by the Board on 14 February 1984. The reply of the department was not accepted because (*i*) the aforesaid letter dated 14 February 1984 clarified that the vessels carrying one into deep ocean only and not those plying around the shores were exempted from duty; (*ii*) the said clarification dated 14 February 1984 gave an inclusive definition only and had to be applied on merits; (*iii*) the clarification given by the Captain of the Ports corroborated audit view and (*iv*) the Government had expressly exempted various types of vessels including barges from the payment of excise duty undler another notification issued on 24 September 1987. On verification of records it was noticed in audit that three units manufactured and cleared one barge each during the period from April 1986 to March 1987 involving excise duty amounting to Rs. 38.10 lakhs. The department did not indicate whether it had taken any action to recover the said duty. The department however, issued show cause notice for Rs. 7.20 lakhs in respect of a fourth barge manufactured and cleared during the period from April 1987 to December 1987. The Ministry of Finance did not admit the objection and stated (November 1988) that whether a vessel completes one voyage or more voyages, the vessel continues to be an "ocean going vessel". The Ministry's comments were not sustainable inasmuch as they had expressly exampted various types of vessels including barges from the payment of excise duty by issue of a notification on 24 September 1987.

AUDIT OF CUSTOM DUTY

The receipt from Customs in Maharashtra Circle was Rs. 287.24 crores in 1970-71. 17 parties with 3 AOs, 17 SOs and 90 auditors carried out the local audit in 1978-79. The Customs Audit branch was supervised by a Joint Director till February, 1984 and Deputy Director, thereafter. The Customs duty receipts increased to Rs. 3409.28 crores in 1980-81 and

Rs. 3859.39 crores in 1985-86. The strength of the Customs audit branch was 17 SOs/AAOs and 17 auditors but the actual strength was around 13 and 16 respectively. Customs Receipt Audit carried out concurrent audit of Customs transactions of Custom House, Bombay (Sea), concurrent audit of customs transactions of Custom House, Bombay (Air), concurrent audit of customs transactions of Custom House, Goa (Air and Sea) and audit of Foreign Travel Tax (Foreign Travel Act 1979) and recoveries (Light Houses and Light Ship Act 1927). In respect of concurrent audit, 9,98,677 documents were audited, 469 audit memos were issued and 516 audit memos were settled, during the year 1987-88. The wing processed 624 paras - (255 individual paras, material for 362 common paras and 7 reviews) for ARs 1974-75 to 1986-87. The contribution varied from 40 (1974-75) to 64 (1976-77), the average being 48 per each year's Report and the maximum was 64 (1976-77 report).

The contribution for AR on IDT for last seven years was as under :

Audit Reports	Paras	MTUS
1982-83	29	20
1983-84	36	25
1984-85	27	41
1985-86	23	40
1986-87	12	30
1987-88	28	66

The monetary value of last three years' contribution was Rs. 379.17 lakhs. The comments were mostly short levy due to under-valuation, misclassification, incorrect grant of exemption, irregularities in draw-back and other miscellaneous irregularities. Reviews were contributed from Audit Report 1982-83 and the maximum of the 3 reviews was for the Audit Report 1983-84 with a tax effect of Rs. 247.28 lakhs. Review of provisional assessment under Section 18 of the Customs Act, 1962 (separate reviews proposed for Sea and Air Collectorates), working of manifest clearance department, and functioning of Santacruz Electronic Export Promotion Zone were carried out for the Audit Report for the year 1987-88.

Default under the Duty Exemption Entitlement Scheme@ : As an export promotion measure, a scheme for exemption from levy of customs duty on raw materials and components, imported under advance licence, for

@ Para 1.27 of A.R. 1983-84 (Revenue Receipts) Vol. I Indirect taxes.

execution of export orders, was introduced in 1976. Responsibility for ensuring discharge of export obligation by an importer is entrusted only to the officers of the Chief Controller of Imports and Exports, including that of realisation of duty on wastages of imported materials. The importer executes bonds for payment of duty on the imported items in the event of failure to discharge the export obligation. The Customs authorities act as agents of licensing authorities and make endorsements in the Duty Entitlement Exemption Certificate (DEEC) issued by the licensing authorities, when exports are effected. The bonds are cancelled by the licensing authorities on getting information from the Customs authorities on the discharge of export obligation by the importer. However, exemption from duty is granted by the Customs authorities under a notification issued by the Ministry of Finance.

In January and June 1981 an export organisation in Bombay, was allowed to import under the Duty Exemption Entitlement Scheme polyster fibre, quantity 389 tonnes vlaued at Rs. 55,43,793. The organisation imported 301 tonnes of polyester fibre valued at Rs. 42,97,704 between December 1981 and September 1982 and duty amounting to Rs. 2,06,36,212 which was leviable was exempted as per notifications issued under the scheme. As per conditions attaching to the advance licence issued under the scheme, the organisation was required to export polyester blended yarn. But the organisation attempted to export cotton yarn under five shipping bills by misdeclaring the goods as "polyester blended yarn", corresponding to 120 tonnes of imported fibre. The shipping bills were passed for shipment by Customs authorities. 558 cases entered the docks but the remaining cases remained in the exporters' godowns. The Intelligence unit of the Custom House detected the fraud and its examination revealed that there was only 50 Kilograms, even of the cotton yarn, in each case as against 150 kilograms of polyester blended yarn declared in the shipping bills. The said advance licences under the scheme were cancelled by the Joint Chief Controller of Imports and Exports on 27 June 1983. The Customs Department detained three further consignments of polyester fibre imported for a value of Rs. 9,32,926. The export organisation is understood to be dealing in prosessed foods and is not engaged in exporting textiles or yarn.

On enquiry in audit in August 1983 about the action taken, the Custom House stated in December 1983 that demand for Rs. 2.06 crores of duty payable on imported fibre, had been raised together with interest at 12 per cent per annum. The department has also informed the Joint Chief Controller of Imports and Exports to forfeit the guarantee amount of Rs. 10 lakhs. Notice for imposing personal penalty had also been issued by the Custom House. It was understood that the advance licence procedure reqnired vertification of the bonafides of the applicant for advance licence, by the officers of the Chief Controller of Imports and Exports and the Textile Commissioner, before issue of the licence. The Custom House had no information whether such verification had been done. But exemption was to be allowed in the Custom House only if the advance licence and the exemption certificate thereon recorded by the Chief Controller of Imports and Exports indicated the details of the factories in which the manufacture was to be done. But in the said case the fulfilment of this condition was not ensured by the Custom House. The objection was reported to Ministy of Finance, whose reply was awaited.

Ambiguity in meaning of Stainless steel and bright bars@@ : Certain types of alloy steel and high carbon steel are classifiable under Customs Traiff heading 73.15. Where they are coils for re-roling, bars (including bright bars), roads, wire-roads, wires, circles, angles, shapes and section, strips, sheets and plates of stainless steel they are classifiable under sub-heading (2) and others under the sub-heading (1) of traiff heading 73.15. As per a notification issued on 24 November 1982, stainless steels bars (including bright bars) which are classifiable under traiff heading 73.15(2) and have cross sectional dimension of less than 10 mm became chargeable to duty at 60 per cent *ad valorem* while those with cross sectional dimension of 10 m.m. or more became chargeable to duty at 150 per cent *ad valorem*. On two consignments of bright steel bars (of diameter 100 m.m. to 360 m.m.) which were imported in January 1983 customs duty was levied at 60 per cent *ad valorem* instead of at 150 per cent *ad valorem*. The mistake resulted in duty being levied short by Rs. 5,00,600. On the mistake being pointed out in audit in July 1983 and September 1983 the department stated that the goods in question were of alloy steel and not stainless steel and that bright bars in the traiff referred only to bright bars of stainless steel. The department also stated that in the light of a decision arrived at on the recommendation of the conference of the Collectors of Customs held at Delhi in December 1982, the technical specification for stainless steel requires a minimum of 17 per cent chromium content which gives it corrosion resistance quality. Therefore the imported alloy steel having lesser chormium content and lacking corrosion resistance quality was not stainless steel.

On another consignment of goods described as 'bright steel bars' imported in May 1982, Customs duty was levied at 60 per cent *ad*

@@ Para 1.28 of A.R. 1983-84 (Revenue Receipts), Vol. I Indirect Taxes.

valorem and auxiliary duty at 25 per cent *ad valorem* under traiff heading 73.15(1). On enquiry in audit as to why 'bright bars' were not classified under Traiff heading 73.15(2) where they are specifically mentioned, the department stated that the goods in question were not of stainless steel but were of alloy steel and were only described as bright steel bars (implying thereby that they were not bright bars). The tariff heading 73.15 and notification of 24 November 1982 refer to a product bearing description 'bright bars' which need not necessarily be made of stainless steel. Further, the I.S.I. specifications prescribe only a Chromium content of 11 per cent for stainless steel. Still further, commercially the expression 'Bright Bars' refers only to steel bars which are bright in appearance and therefore 'bright bars' whether of stainless steel or alloy steel or mild steel are covered by the expression 'bright bars'. Even in notifications No. 26 of 1 March 1981 and No. 111 of 16 April 1982 there are references to bright bars which need not necessarily be of stainless steel. Since the term alloy steel covers stainless steel as well as bright bars of any composition the lack of a technical definition in the traiff and ambiguity attaching to the term stainless steel and bright bars resulted in loss of duty amounting to Rs. 5,69,735. The objections were reported to Ministry of Finance, whose reply was awaited.

Irregularities in bonds and bank guarantees executed by Importers :* As per departmental instructions of 1960 issued by the Central Board of Revenue as amended from time to time by the Central Board of Excise and Customs bonds are to be executed by the importers in support of their obligations to fulfil end use conditions subject to which exemption from duty had been allowed to them. The bonds executed by the importers are required to be reviewed well before their expirty. Consequent upon such review, the bonds are either cancelled or duty is levied and collected. The position of bonds/guarantees executed in a major Custom House (Bombay) during the years 1980 to 1982 was as in the table at page 1094.

A test check of these bonds and the related Customs House records revealed that (*a*) The period of validity had expired in respect of 13 bonds (valued at Rs. 15 lakhs) executed during the years 1980, 1981 and 1982 but no demand had been raised even though conditions governing the import had not been fulfilled. The revenue involved is Rs. 15,38,824. (*b*)(*i*) In other cases of 68 bonds (valued at Rs. 1.80 crores) executed during the same period, demands were raised after the expiry of the period of validity of the bonds. The revenue foregone is Rs. 1.80 crores.

* Para 1.56 of A.R. (Revenue Receipts) 1984-85, Vol. I Indirect Taxes.

Year	Number	Bond against I.T.C. Bond Value / Bank Guarantee	Number	Bond against Test Report	Number	Bond against production of Enduse Certificate Bond Value / Bank Guarantee	Number	Bonds accepted against the orders the court in cases/ Miscellaneous. Bond Value / Bank Gauarantee
1980	16	16.69 / 14.33	..	..	523	1138.72 / 896.82	334	531.92 / 531.92
1981	58	176.26 / 161.51	30	3425.06 / 6.35	627	1211.26 / 917.24	1356	4716.02 / 3100.01
							4	1.76 / 1.76
1982	227	688.93 / 297.62	..	0.85 / 0.85	654	1944.68 / 1357.43	1238	6236.58 / 3774.08

(ii) In 4 cases involving bonds and guarantees (values of Rs. 1.73 lakhs each) demands were raised only in June 1983 after the bank guarantees had already expired in December 1981. The revenue foregone is Rs. 1.73 lakhs. (c) In respect of an importer who imported two consignments of aluminium ingots, the demands for consignments of aluminium ingots, the demands Rs. 3.04 lakhs (bank guarantee Rs. 1.01 lakhs) in one case and Rs. 1.00 lakh (bank guarantee Rs. 1.02 lakhs) in the other case were required to be enforced on the dismissal of a petition filed by the importer on assessment of aluminium ingots/wire rods by a High Court in March 1983. However, demands were not issued even though they were dated April 1983 which rendered the invoking of guarantee time barred. Bond value was Rs. 4.04 lakhs (guarantee value Rs. 2.03 lakhs) of which one bond was not covered by guarantee for the full amount of duty amounting to Rs. 3.01 lakhs. This resulted in non collection of duty of Rs. 4.04 lakhs by way of bonds. (d) In two cases of imports of P.V.C. resins, one bond valuing Rs. 9.88 lakhs (bank guarantee Rs. 4.94 lakhs) and the other bond valuing Rs. 10.79 lakhs (bank guarantee Rs. 5.40 lakhs), the Custom House issued the demands on 23 April 1983.

and 14 June 1983 respectively demanding the payment of difference of duty, even though the bank guarantees had expired on 6 February 1982 and 13 April 1982 respectively. No action was taken to renew the guarantee in these cases. This resulted in non collection of duty of Rs. 20.67 lakhs. (e) (i) In respect of import of caustic soda by 63 importers, bank guarantees at 50 per cent of the duty were accepted pending finalisation of assessment. These guarantees were not renewed each year till finalisat-ion of the case nor was duty realised. Inaction on the part of the department resulted in blocking up of revenue to the extent of Rs. 1.19 crores. (ii) In another case the demand at 50 per cent of duty difference was raised against the importer and bank on 27 April 1983; but the guarantee given by the bank had expired on 31 January 1982 and the revenue involved amounted to Rs. 81,414.

In respect of 46 cases of imports of stainless steel circles, tubes, wires, rods and angles, bright steel bars and galvanised sheets and colour T.V. sets, the bonds executed by importers were secured by bank guarantees for value of Rs. 6.3 crores but the bank refused to honour the guarantees on the ground that they had already expired. The amount was thus lost to the Government. The bank guarantee furnished by an importer of caustic soda was not honoured by the bank on the ground that the guarantee was not presented within the period of its validity. The revenue thus not realised (at 82.5 per cent as duty difference in the said case) and foregone amounted to Rs. 1.45 crores.

Several consignment of stainless steel circles were imported by an importer firm. The importer sought judicial remedy by filing two petitions for clearance of these goods on execution of bonds by guarantees by assessing the goods initially at 35 per cent (plus 10 per cent auxiliary duty) instead of at 220 per cent *ad valorem* leviable otherwise on stainless steel sheets. The bonds and bank guarantees amounting to Rs. 3.72 crores (at 50 per cent of the value of the bond) and Rs. 1.34 crores (at 25 or 50 per cent of value of bond in some cases) respectively were furnished by the importer. On the dismissal of the aforesaid two petitions of the firm (September 1982) the demands were issued in respect of four bonds; but the bank rejected the claims on the ground that the petitions had not been disposed of within the validity period guaranteed by the bank. The department, in reply, stated (December 1983) that the said firm was not in existence and the petitioner had no financial status. The reasons for the acceptance of the bonds in these cases without assessing the financial stability of the firm were enquired in audit (March 1984); the reply of the department was awaited. From an importer of brass scrap (Rs. 15.79 lakhs), German silver scrap (Rs. 2 lakhs) and zinc (value not available), bonds were taken for Rs. 16.00 lakhs) backed with scheduled bank guarantee for Rs. 10.44 lakhs. The guarantee produced by the importer was found to be a forged one, as the concerned scheduled bank had denied of having executed any such guarantee. The importer was also not traceable. The revenue foregone amounted to Rs. 16.00 lakhs.

As per records, demands were shown to have been raised in 49 cases, but were not issued actually. The fact of demands stated to have been sent by registered post could not be substantiated by postal receipts. The amount of duty involved in these cases aggregated to Rs. 61.00 lakhs (bank guarantee Rs. 42 lakhs).

In respect of 13 bonds demands were raised for Rs. 3.90 lakhs instead of Rs. 26.00 lakhs. No recovery for the balance amount was made. The guarantees in these case had already expired in November 1981 and December 1983.

On import of aluminium ingots by a firm, a demand was raised for Rs. 80,000 (being the value of bond) instead of Rs. 1.60 lakhs on account of duty payable. In respect of a bond executed for Rs. 63,000 by a firm for import of caustic soda, the concerned files were stated to be missing, recovery had not been made and guarantees were shown as having expired in 1981. In 154 cases demands for Rs. 2.46 crores had not been realised from the importers and action was still under way to recover the amounts.

To sum up, the review of bonds and guarantees brought out that (*a*) The department did not produce to audit any record to show that the financial status/bonafides of the importers was verified by the Customs House at the time of acceptance of the bond from them. (*b*) In one case the firm became extinct and the importer had no financial status with the efflux of time. (*c*) In another case, the guarantee of the bank produced by the importer was forged and department did not verify genuineness of the document. (*d*) Yet in another case, the file containing the guarantee papers was stated to be not traceable. (*e*) In yet another case, the bank which guaranteed the amount refused to honour the demand issued by the Customs House on the ground of expiry of validity period, because of delay in action taken by the Customs Officers.

Obviously there was need for proper monitoring arrangements. Reply of the Ministry of Finance was awaited.

*Short levy of customs duty due to non-loading of assessable value of imports from a 'related supplier'*** : As per Section 14(1)(b) of the Customs Act, 1962 read with Customs Valuation Rules 1963, when the

** Para 2.28 (ii) of AR (Revenue Receipts) 1987-88, Vol. I Indirect Taxes.

importer has special relationship with the foreign supplier (as an agent, a collaborator or a distributor etc.), the assessable value is arrived by loading the invoice value of the imported goods. The loading factor in each case is determined by the Special Valuation Branch of the Customs Houses after examination of the books of accounts of importers and the results of such examination are communicated in the form of circulars issued by them. As per circular issued by the Special Valuation Branch of the Customs House in August 1985, the F.O.B. value of invoices in respect of all the imports for the period from 8 December 1980 onwards made by a specific importer from a specific supplier were to be loaded by ten per cent. As the details of the imports made by the said specified importer were not made available to Audit by the department, a review of the import documents made available by the said importer was carried out. The review revealed that F.O.B. value of 35 consignments imported during the period from 8 December 1980 to 31 December 1987 was not loaded. This resulted in duty being levied short by Rs. 1,15,945. The fact that the Custom House did not maintain any records to watch the implementation of the circulars, issued by the Special Valuation Branch and having a bearing on revenue, was also pointed out in audit in March 1988. The Ministry of Finance have admitted the facts in 25 out of 35 cases. In 6 out of the remaining 10 cases the Ministry have stated that loss of revenue is marginal. The under assessment in the remaining four cases had not been accepted on the ground that the imports related to spares and not to life saving drugs and raw materials.

The expenditure of the office was Rs. 198.95 lakhs, which constituted around 0.02% of the total income and expenditure covered in audit.

GOA, DAMAN AND DIU

The accounting and entitlement functions of the Union Territory of Goa, Daman and Diu were carried out by the Director of Accounts of the Goa Government, who also exercised "Pre-payment" and "Post payment" checks. A Resident Audit office at Goa carried out only the concurrent audit of the entitlements, apart from the local audit of all the Union Territory Government offices including Works divisions. The appropriation accounts prepared by the Director of Accounts were checked and submitted to CAG's office through D.A. Central Bombay, which were issued separately. Thus the branch office at Goa performed purely audit functions from its very inception. About 50 officers and staff were employed in audit of the transactions of the Union Territory of Goa - in the offices of RAO Goa, OAD Goa, and Central sections in the office of DA Central - 3 AOs, 10 SOs, 29 Sr. auditors/auditors, 1 steno, 5 clerks/typists and 2 group D.

The Resident Audit Office at Panaji was under the Joint Director of Audit (Goa), and conducted the audit of state of Goa and Union Territory of Daman and Diu. During 1987-88, audit of 89 units/offices due for audit was completed and 89 Inspection Reports were issued including 13 Nil reports in the branch during the year. The table below indicates the details of audit objections raised and settled during the year :-

(Rs. in lakhs)

		Number of reports	Number of paras	Money value
(a)	Outstanding as on 1-4-1987	571	1533	48.29
(b)	Issued during the year	89	462	10.03
(c)	Settled during the year	55	342	0.64
(d)	Outstanding as on 31-3-1988	605	1653	57.68

The old outstanding paras were not settled for want of replies from the Departments. During the year 47 local audit reports were issued within the prescribed period of 4 weeks from the last date of audit and the remaining 42 local audit reports were delayed to be issued within the prescribed period due to non receipt of replies from units audited, promises of departmental authorities for rectification of omissions and inadequate typing facility. The arrears of audit as on 31st March, 1988 worked out to 1567 party days, which was ascribed to shortage of local audit parties, as only 4 local audit parties were available against the requirement of 8 local audit parties and 4 reviews were required to be carried out during the year with available staff. The table below indicates the number of objections raised and settled during the year in respect of concurrent audit conducted by the branch.

(i)	Number of objections raised upto 1-4-1987	570
(ii)	Settled during the year	102
(iii)	Outstanding as on 31-3-1988	468

Audit of Sales Tax and Entertainment Tax and other receipts such as State Excise, Land Revenue, Registration Fees, Stamp Duty and Motor Vehicle, Goods and Passenger tax was conducted locally by sending local audit parties. During 1987-88, out of 81 units, 72 units were audited and 37 Local Audit Reports with 134 paras were issued, excluding 35 'NIL' reports. The table below indicates the details of objections raised and settled during the year.

(Rs in lakhs)

		Reports	Paras	Money value
(i)	Outstanding balance on 1-4-1987	42	92	20.79
(ii)	Issued during the year	37	134	7.57
(iii)	Settled during the year	22	78	22.00
(iv)	Outstanding as on 31-3-1988	57	148	6.36

REPORTS

With the coming into force of the 'Government of Union Territories Act, 1963' from 20th December 1963, a separate Consolidated Fund was established for Union Territory of Goa, Daman and Diu from that date. A separate Audit Report on the Accounts for the period from 20th December 1963 to 31st March 1964 was finalised on 17th May 1965. The Report contained 3 chapters spread over 8 pages. The contents and volume of the Report gradually increased and the AR 1986-87 consisted of 8 chapters spread over 157 pages. The revenue audit findings were included in a separate chapter from 1966 Report onwards. The commercial audit findings formed a separate chapter from AR 1972-73 onwards. Reviews started appearing from AR 1973-74. The Reports 1965 to 1986-87 were finalised 9 (1966 Report) to 21 (1986-87 Report) months after the close of the financial year. 1985-86 Report was approved by CAG in December 1986 and got printed and countersigned by CAG on 2nd July, 1987 and placed before the Legislature on 12th January 1988. In all, 24 years ARs contained 588 paras and 38 reviews - 198 paras on Civil, 81 paras on revenue receipts, 86 paras on works, 33 paras on stores and stock, 66 paras on Government Commercial and trading activities, 88 on financial assistance to local bodies, co-operative institutions etc. and 36 paras on outstanding inspection reports. 27 reviews were on Civil, 1 on receipt, 6 on works, 4 on commercial and trading activities. 18 reviews were part of All India reviews incorporated in the AR on Union Government (Civil).

AUDIT REPORT* (1986-87)

The Report contained points relating to matters arising from a scrutiny of the Appropriation Accounts and the Finance Accounts for 1986-87 and comprised of 11 Audit reviews and 29 Audit paragraphs arising from audit of financial transactions of the Government of the Union Territory of Goa, Daman and Diu. 60% of paras was not responded by UTA. Against the revenue expenditure of Rs. 1,71,98.67 lakhs, the revenue receipts were Rs. 1,70,91.48 lakhs resulting in a revenue deficit of Rs. 1,07.19 lakhs. Arrears of revenue at the end of the year were Rs. 9,88.92 lakhs, as against Rs. 6,07.08 lakhs at the end of the previous year. As on 31st March, 1987 Rs. 2,58.04 lakhs was overdue for recovery including interest of Rs. 1,74.70 lakhs against loans advanced. Non-plan expenditure increased by Rs. 27.22 crores compared to previous year. On the total Government investment in shares and debentures of the various statutory corporations, companies, co-operative societies, in March 1987, amounting to Rs. 35,03.27 lakhs, interest/dividend received during the year was Rs. 11.89 lakhs, representing 0.34 per cent of the investment. Of the Central assistance of Rs. 693.82 lakhs received from the Government of India for Centrally Sponsored Plan schemes, the expenditure incurred was Rs. 5,06.11 lakhs.

Appropriation Audit and control over expenditure : Against the total budget provision of Rs. 2,94,45.12 lakhs, expenditure during 1986-87 was Rs. 2,90,50.00 lakhs resulting in a net saving of Rs. 3,95.12 lakhs. The supplementary provision of Rs. 42,44.76 lakhs obtained during the year constituted 16.84 per cent of the original budget provision and Rs. 9.25 lakhs obtained in March, 1987 in 3 grants proved unnecessary. In 21 more cases, additional funds utilised were only Rs. 28,83.40 lakhs, against the supplementary provision of Rs. 30,75.36 lakhs. In 6 cases, supplementary provision obtained was Rs. 6,54.65 lakhs, against the actual requirement of Rs. 6,64.26 lakhs, leaving an uncovered excess expenditure of Rs. 9.61 lakhs which needed regularisation. Significant savings occurred in respect of 15 Plan schemes due to non-implementation or slow implementation of the schemes and the percentage of savings ranged from 57.35 to 100. Rush of expenditure in the month of March, 1987 was noticed in 30 Major Heads.

* AR 1986-87 signed by Shri R.V. Bansod and countersigned by Shri T.N. Chaturvedi on 20th January, 1989.

Reconciliation of expenditure had not been carried out by 8 Budget Controlling Officers in respect of 80 units of appropriation for the whole year. In respect of 275 other units of appropriation, reconciliation had been done only for a part of the year by 18 Budget Controlling Officers.

AUDIT REVIEWS

(i) *Collection of sales tax* : Ever since the levy of sales tax in October 1964, no machinery has been evolved by the Sales Tax Department to ensure timely submission of returns by all registered dealers and watch deposit of pre-assessment tax. There was delay in issuing demand notices and revenue recovery certificates. Sales tax officers were not empowered to write-off even petty amounts. No guidelines were issued to streamline the collection machinery. There was neither any check posts on the borders of the Union Territory to prevent evasion of sales tax, though the setting up of such check posts was provided for in the Goa Sales Tax Act nor an internal audit organisation to ensure that no mistake or irregularity occurred in the assessment done. The Goa Sales Tax Act had no provision to levy interest either for belated submission or for non-submission of return or belated payment of monthly tax.

(ii) *Land Revenue :* Although a Comprehensive Land Revenue Code had been introduced in 1968, necessary enabling formalities like survey, land classification, preparation of record of right and land settlement were not complete and in the meanwhile, land tax only was being collected under old Portugal Predial. In respect of agricultural land converted into non-agricultural land, tax was being collected on the basis of yield and value as determined prior to 1918. The quit rent fixed in respect of Government land leased to others, has not been revised, despite *ad hoc* increase in rate of land tax in 1958 and 1973.

(iii) *Agricultural Engineering* : The scheme envisaged providing of agricultural machinery and implements on hire to farmers on a "no profit no loss" basis. Utilisation of power tillers and bulldozers ranged from 14 to 50 per cent. Though the scheme was to provide agricultural machinery and implements on hire to farmers on a no profit no loss basis, there were deficits ranging from Rs. 12 to 47 lakhs each year. Expenditure on repairs increased substantially though there was no increase in the number of items of machinery. Machinery and implements worth Rs. 14.29 lakhs were lying unutilised. There was excessive consumption of diesel, oil, etc.

(iv) *National Programme for Control of Blindness* : The programme envisaged reduction in the incidence of blindness from 1.4 per cent of the total population in 1975 to 0.3 per cent by 2000 AD. As against the Central assistance of Rs. 15.94 lakhs released in cash between 1980 to 1987, the expenditure was only Rs. 4.78 lakhs. As against the target of 15 primary health centres for the period 1980-83, only 7 had been developed in 1986-87. The mobile unit did not have regular ophthalmic surgeons and the targeted number of intra-ocular operations were not carried out. Follow-up of cases of operations performed by the mobile unit was inadequate. As against 801 operations, follow-up action was taken in respect of 487 cases only.

(v) *National T.B. Control Programme* : The programme aimed at detecting as large a number of patients as possible and treating them effectively. Against the budget provision of Rs. 25.06 lakhs during 1980-87, the expenditure on the programme was Rs. 13.87 lakhs only. No targets were fixed for case detection, and sputum examination till 1982-83. The percentage of patients fully cured was low. Patients lost from treatment ranged from 6 to 23 per cent. The number of patients, who died due to the disease was on the increase.

(vi) *National Leprosy Eradication Programme* : The programme aimed at preventing the emergence of resistant strains of the diesease causing germs, curing the patients and protecting the risk groups. Against the budget provision of Rs. 6.83 lakhs, the expenditure was Rs. 7.62 lakhs during the years 1980 to 1987. The physical targets set by the Government of India were not achieved though the expenditure exceeded the budget provision. Though a temporary hospitalisation ward with 20 beds was started in 1978-79, no leprosy patient was admitted as inpatient, as there was no trained medical officer. Number of patients examined fell short of the targets. There was overstocking of some medicines resulting in large quantity of time expired tablets remaining in stock.

(vii) *Housing for Economically Weaker Sections and Slum Improvement Programme* : The aim of the programme was to provide houses to the economically weaker sections of the community and to improve the living conditions in urban slums. Tenements constructed at a cost of Rs. 25.31 lakhs at Vasco were illegally occupied by or allotted to others such as victims of fire and riots. Slum areas at Margaon remained uncleared. Site and Services Scheme for rehabilitation of slum dwellers of Vasco was not implemented though land was acquired at a cost of Rs. 8.41 lakhs. Improvement of areas not notified as slum areas was carried out at a cost of Rs. 30.40 lakhs. Central Incentive Grant of Rs. 5 lakhs was not utilised. Toilet blocks, constructed in 1985 at a cost of Rs. 1.05 lakhs, had not been commissioned, as there was no water supply.

(viii) *Mandovi Irrigation Project* : The object of the project on which Rs. 2,06.18 lakhs was spent upto March, 1987 remained unfulfilled, as the work on the project had to be kept in abeyance, due to non-clearance of the project by the Government of India from the environmental angle. Even though the Ministry had in June, 1984 informed the department that the project was not approved, the Union Territory Government continued to incur further expenditure on the project works totalling Rs. 55.84 lakhs upto 1986-87.

AUDIT PARAGRAPHS

In respect of thirteen major sources of tax and non-tax revenue, arrears in collection amounted to Rs. 8,94.99 lakhs as on 31st March, 1987. Under Motor Vehicles Act, incorrect application of rates in Daman Taluka, quarterly motor vehicles tax for one quarter in respect of 10,893 chassis and 2,978 jeeps registered during the period between Ist April, 1985 to 10th February, 1986, resulted in short collection of Rs. 3.10 lakhs. 3,129 bank drafts for Rs. 18.82 lakhs collected by Government of Goa, Daman and Diu during September, 1981 to October, 1986 from owners of Goa-based motor vehicles for plying in other states were not documented or remitted to the respective States till the omission was pointed out by Audit to the department in March, 1987. Raising of a large quantity of cashew seedlings in excess of demand resulted in loss of Rs. 1.33 lakhs. The Public Works Department incurred an extra expenditure of Rs. 3.06 lakhs on account of the decision to reject the tenders received in July, 1986 and to call for fresh tenders for the construction of a ramp at Panaji. Two rural water supply schemes in Salcete taluka completed at a cost of Rs. 8.79 lakhs and Rs. 4.18 lakhs in February, 1984 and December 1984 respectively, could not be commissioned due to non-availability of sufficient water in the tube wells. All the 7 arbitration cases decided during 1986-87 went against Government. There was accumulation of unused spares of the value of Rs. 3.88 lakhs purchased from 1964 to 1985. The purchases of lubricants and oil made during 1984-85 and 1985-86 from local dealers at a cost higher than those approved under the rate contracts resulted in extra expenditure of Rs. 1.07 lakhs. The pesticides and fertilizers valued at Rs. 3.17 lakhs, purchased between 1976 to 1985, were lying unused as the period during which they had retained their potency, had expired. Insecticides valued at Rs. 0.73 lakh could not be used as they were required in very rare cases. There was, 67 tonnes of treated paddy seed valued at Rs. 2.55 lakhs and other seeds of the value of Rs. 0.86 lakh not fit for either human or animal consumption in stock from 1980 at the Ela Farm. Machinery and electrical equipment purchased at a cost of Rs. 23.18 lakhs by the Department of Fisheries for cold storage complex project at Benaulim village had been lying idle since December, 1982.

GOVERNMENT COMPANIES AND CORPORATIONS

Of the eight Government companies, including four subsidiaries and one statutory corporation, as on 31st March 1987, 7 companies and the statutory corporation finalised the accounts for 1986-87. While five companies with a paid-up capital of Rs. 139 lakhs earned a profit of Rs. 34.92 lakhs (29.8 per cent), two companies with a paid-up capital of Rs. 7,05.72 lakhs incurred a loss of Rs. 69.29 lakhs. Two companies declared and paid a dividend of Rs. 1.35 lakhs representing 0.1 per cent of total investment of Rs. 15.46 crores by Government in eight Government companies. Government had invested in the Statutory Corporation (Goa, Daman and Diu Industrial Development Corporation) by way of advances in the nature of capital contribution, Rs. 7.82 crores as on 31st March, 1987. The working of the corporation during 1986-87 resulted in a net surplus of Rs. 5.42 lakhs giving a return of 0.7 per cent of capital invested/capital employed. The proforma accounts of both departmentally managed commercial/quasi-commercial undertakings viz., the Electricity Department and the River Navigation Department were in arrears, from 1983-84 in the case of former, for 1986-87 in respect of the latter.

AUDIT OF AUTONOMOUS BODIES

The audit of Bombay Port Trust, Nhava Sheva Port Trust, Mormugao Port Trust and Khadi Village Industries Commission was conducted under Section 19(2) of CAG's (DPC) Act, 1971 as their sole auditors. The Resident Audit offices attached to these institutions conducted regular audit. Some of the points* noticed during the audit were reported. Bombay Port Trust purchased four mooring launches fitted with mechanical gear boxes between April 1985 and July 1986 from a Mangalore based firm at a total cost of Rs. 31.96 lakhs, despite the fact that the old mooring launches used in the port were fitted with hydraulic gear boxes. During operation it was noticed in October 1985 that launches were not working satisfactorily due to fitment of mechanical gear boxes. The improper assessment of the requirements resulted in

* Paras 11,12 and 13 of Audit Report 1987-88 (No. 9 of 1989) - Union Government (Other Autonomous Bodies).

avoidable expenditure of Rs. 2.60 lakhs being the cost of mechanical gear boxes besides non-availability of the benefit of launches for two to three years. Bombay Port Trust incurred expenditure of Rs. 10.19 lakhs on the construction of RCC lift shafts for installation of two goods lifts in Indira Dock. The entire expenditure became unfruitful as one shed was decommissioned in October 1986 and the other shed was earmarked for demolition. Two plots of land belonging to Bombay Port Trust were leased by it to a firm for forty years in 1940 and 1942 which assigned the plots to another firm (lessee) in March 1970. Contrary to the provisions of the lease deed, the lessee sublet a portion of the premises to another firm from March 1981 to August 1984. The Port Trust decided to recover only an amount of Rs. 2.55 lakhs as additional lease rent and a penalty of Rs. 0.10 lakh from the lessee as against the benefit of Rs. 12.75 lakhs derived by the lessee by subletting the premises.

Mormugao Port Trust: A mechanical ore handling plant was commissioned for commercial operations in October 1979 at Mormugao Port. The provisional handling rate of Rs. 23 per tonne fixed in September 1979 was revised in November 1980 to Rs. 27.56 per tonne of iron ore. It was further revised to Rs. 28.22 per tonne from October 1983 with a surcharge of Rs. 8.80 per tonne of ore handled towards rental charges. A scheme allowing rebate of Rs. 1.00 to Rs. 8.80 per tonne on the level of turnover achieved from 6.25 to 8 times of the nominal plot capacity was also adopted. It was observed by audit that though some of the exporters achieved the plot capacity and became eligible for the rebate, the optimum annual through-put of eight million tonnes was never achieved. Thus, there was a mismatch between plot capacity and through-put. Against envisaged annual income of Rs. 22.58 crores, the actual income realised was found to be short by Rs. 4.99 crores during October 1983 to September 1986 due to non-achievement of through-put. In order to overcome the accumulated deficit of Rs. 15.55 crores at the end of March 1988, the Port Trust proposed in August 1986 for revision of basic handling rate from Rs. 28.22 to Rs. 34.00 per tonne and reducing the maximum surcharge rebate from Rs. 8.80 to Rs. 4.50 per tonne. The proposal was pending with Government.

NHAVA SHEVA PORT TRUST

According to the terms and conditions of a contract for main civil works concluded by Nhava Sheva Port Trust the contractor was required to pay all customs or other import duties. However, the items which would bear 'Project Import' endorsement were entitled for concessional rates under the relevant provisions of the Customs Tariff Act, 1975 and it was the responsibility of the contractor to complete the requisite formalities and satisfy the prescribed conditions in this regard. As some of the goods imported by the contractor were not eligible for Project Import assessment, the contractor took delivery of these goods on payment of customs duty. Contrary to the terms and conditions of the contract, the Port Trust reimbursement customs duty to the extent of Rs. 73 lakhs to the contractor which constituted irregular payment.

LIST OF ABBREVIATIONS

1	AAO	— Assistant Audit Officer
2	AG	— Accountant General
3	AGCWM	— Accountant General, Commerce, Works and Miscellaneous
4	ANI	— Andaman Nicobar Islands
5	AO	— Audit Officer
6	AR	— Audit Report
7	CAG	— Comptroller and Auditor General
8	CAG's(DPC) Act	— Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act., 1971
9	CE	— Central Excise
10	CGA	— Controller General of Accounts
11	CIT	— Commissioner of Income Tax
12	DA	— Director of Audit
13	DACR	— Director of Audit, Central Revenues
14	DACWM	— Director of Audit, Commerce, Works and Miscellaneous
15	DAsG	— Deputy Accountants General
16	DDOS	— Drawing and Disbursing Officers
17	DOMS-IT	— Director of Organisation and Management Services - Income Tax
18	ECPA	— Efficiency-Cum-Performance Audit
19	GAD	— Gazetted Audit Department
20	IAAS	— Indian Audit and Accounts Service
21	INDT	— Indirect Taxes
22	IRs	— Inspection Reports
23	ITA	— Internal Test Audit
24	ITRA	— Income Tax Receipt Audit
25	LDC	— Lower Division Clerk
26	MCP	— Material for Common Paras
27	MTUA	— Material for Tax Under Assessment
28	NITIE	— National Institute of Technical Industrial Engineering
29	OAD	— Outside Audit Department
30	OAD HQ	— Outside Audit Department. Headquarters
31	P&L Account	— Profit and Loss Account
32	PAO(ANI)	— Pay and Accounts Officer (Andaman and Nicobar Islands)
33	PAOS	— Pay and Accounts Officers
34	PF	— Provident Fund
35	PSBs	— Public Sector Banks
36	RA	— Receipt Audit
37	RAO	— Resident Audit Officer
38	RAP	— Resident Audit Party
39	RBI	— Reserve Bank of India
40	RCC	— Reinforced Cement Concrete
41	SAS	— Subordinate Accounts Service
42	SGC	— Selection Grade Clerk
43	SO	— Section Officer
44	Sr.DAG	— Senior Deputy Accountant General
45	TAD	— Treasury Audit Department
46	TM	— Treasury Miscellaneous
47	UDC	— Upper Divison Clerk
48	UTA	— Union Territory Administration

49	WAD	—	Works Audit Department
50	WB	—	West Bengal

SOURCE AND REFERENCES

1 Audit Report (Civil) - Union Government for 1978-79
2 Audit Report (Civil) - Union Government 1983-84 - Revenue Receipts (Indirect Taxes)
3 Audit Report (Civil) - Union Government - Revenue Receipts (Direct Taxes and Indirect Taxes) 1985-86 to 1987-88
4 Audit Report (Civil) - Union Government - 1986-87 and 1987-88 (No. 9 of 1988 and No. 9 of 1989)
5 Audit Report - 1986-87 of the Government of Union Territory of Goa
6 Audit Report (Civil) - Union Government for 1987-88 - No. 1 of 1989
7 Administrative Reports - 1987-88 of Directors of Audit, Central, Calcutta and Bombay.

26 Audit Offices Abroad

DIRECTOR OF AUDIT, INDIAN ACCOUNTS, LONDON

THE AUDITOR

In 1858, under Act C VI (an act for the better Government of India) of British Parliament, an Auditor of the accounts of Secretary of State-in-Council was created to "examine and audit the Account of the Receipt, Expenditure and Disposal in Great Britain of all monies, stores and properties applicable for the purposes of that Act", who was appointed by the Crown and held Office during good behaviour, and was completely independent of the then Auditor General of India and whose reports were laid before Parliament of the United Kingdom. These arrangements remained substantially unchanged until Government of India Act 1935 and the Government of India (Audit and Accounts) Order 1936 came into force, which provided for the appointment of an Auditor of Indian Home Accounts by the Governor General at his discretion to be removed from office in like manner and on like grounds as a judge of the Federal Court. The Auditor was brought under the general supervision of the Auditor General of India and was required to audit the accounts of the transactions in the U.K. affecting the revenues of the Central Government or of any province and report to the Auditor General. During 1950s, the permanent establishment consisted of 1 Auditor, 1 Deputy Auditor, 4 Assistant Auditors, 6 Higher Executive Officers, 8 Executive Officers, 12 Clerical Officers, 2 comptists and 1 messenger. In 1952, the post of Auditor was converted to Senior Administrative grade, Dy Auditor to Junior Administrative grade and four Assistant Auditors to Senior Time Scale of IAAS and one post of Assistant Auditor was held in abeyance.

THE DIRECTOR OF AUDIT

With the establishment of diplomatic Missions in the Countries of Europe, the duties of Auditor were extended to cover the local audit and inspection of the accounts of the Missions in Europe, while the central audit of the accounts of these Missions was entrusted to the Accountant General, Central Revenues to whom monthly accounts were rendered for compilation, record and audit. In the case of High commission of India in U.K., compiled accounts were forwarded monthly by the Chief Accounting Officer to the Accountant General, Central Revenues for incorporation in the accounts of the Union Government and the Auditor in the UK was the Audit Officer. The post was redesignated as Director of Audit, Indian Accounts in U.K. from July 1955. In all 17 officers held the post of Auditor/Director of Audit; the maximum tenure was 5 years 7 months and 8 days held by Mr. W.H. Turner. The Office was organised in 1967 into 4 sections consisting of 2 to 5 Auditors each for dealing with audit of Cash and Appropriation Accounts and Central Co-ordination of draft paras for Audit Reports, audit of contracts and vouchers relating to stores purchased through the India Supply Mission, finalisation of the programme of local audit/inspection of Missions in Europe and pursuance of the local audit inspection reports and audit of pay and allowance of High Commissioner's establishment. A section or a part of the section was under the supervision of a Dy. Director.

With a view to providing greater coordination between the Central and local audit of the Missions in Europe, the work relating to central audit of the Missions, as well as authorisation of pay and allowances of the gazetted officers and compilation of accounts upto the stage of classified abstract was transferred from the Accountant General, Central Revenues to Director's office from January 1971. After the departmentalisation of accounts in 1976, the work relating to authorisation of pay and allowances of gazetted officers and compilation of accounts was transferred to the Controller of Accounts, Ministry of External Affairs, New Delhi and the office functioned as an Audit office from October 1976 with a strength of 1 DA, 1 JDA, 4 DDA, 21 AAOs, 4 Auditors, 3 P.As and 1 Messenger. The audit work was reorganised by forming three sections *viz*. Administration and Co-ordination, High Commission Audit and Local Audit and Supply Audit. The Director held the direct charge of the High Commission Audit and the Local Audit Sections, besides holding overall charge of the office as a whole and while the Joint Director was in charge of the Administration and the Supply Audit Section. The expenditure of the office in 1980-81 was Rs. 28 lakhs. In March 1988, the strength of the office was 15 - 1 Director, 1 Joint Director, 9 AAOs, 1 Senior Auditor, 2 PAs and 1 Messenger. The expendiuture incurred by the office in 1987-88 was Rs. 32.33 lakhs.

SCOPE AND EXTENT OF AUDIT

The scope of audit covered the audit of transactions relating to the expenditure incurred by the High Commission of India in the United Kingdom, the investments, excluding the investments held by the High Commission on behalf of the Administrator General and the Official Trustees, the loans and credits in the United Kingdom and in Europe, the stores purchased by the Supply Wing of the High Commission of India in the United Kingdom, including contracts and freight charges relating thereto, the purchases of foodgrains in the United Kingdom, North America, Australia and Europe and freight charges thereon and the residual work relating to payments made by the High Commission of India in the United Kingdom for supplies against contracts placed direct by the authorities in India, duly empowered to do so. The local audit covered the accounts of the High Commission of India in the United Kingdom, the Indian Missions/Posts in Europe excluding Turkey and Cyprus but including USSR and other Government of India Offices, Autonomous bodies and units/offices of Public Sector Undertakings in Europe as assigned by the CAG, Local Audit was conducted in accordance with the procedure laid down in CAG's Manual of Standing Orders (Technical) Vol. I. Local audit covered transactions upto the month preceding the month in which the inspection was completed and normally covered transaction audit of the Missions abroad. Where efficiency and performance audit was considered necessary, approval of the Head-quarters office was obtained by furnishing adequate data/material in support thereof. Before such audit was actually undertaken the Head of the Mission concerned at Headquarter's level was fully apprised as to why and how such an audit has become necessary. Important points raised during local audit ultimately found mention in the Audit Report, particular care being taken to obtain attested copies of all documents which were likely to be useful in pursuing the matter further.

Audit of the commercial units/branches located in Europe was entrusted from April 1981 and guidelines for audit were issued in May 1983. Accordingly, the DA decided the quantum of audit in consultation with the concerned Member, Audit Board and *Ex-Officio* DCA, keeping in view the general principles mentioned in MSO(Tech). While Air India, London was to be audited annually, other stations of Air India in Europe were to be covered once in six years. The units of other public sector undertakings covered in rotation once in five years. The audit of a foreign branch-unit of an enterprise was considered only after the Director of Commercial Audit made out a case and the proposal was accepted by the Headquarters Office, from March 1988 onwards. However, Air India and other major public sector undertakings continued to be audited on regular basis by the DA in consultation with the concerned DCA.

An up-to-date list of all Missions/Posts, Offices and public sector undertakings to be audited locally along with the due year of audit, indicating also whether the concerned Audit Officer in India was duly consulted, wherever necessary, was maintained.

The volume of transactions audited both centrally and locally for selective years was as under :

(Rs. in crores)

Sl. No.	Particulars of informatrion	1980-81	1985-86	1986-87	1987-88
1.	Expenditure incurred by the High Commission of India, London	Rs. 1203.31*	Rs. 10.65	Rs. 19.61	Rs. 23.93
2.	Receipts of the HCI, London	Rs. 1258.11*	Rs. 2.44	Rs. 3.35	Rs. 6.64
3.	Investments excluding the investments held by the HCI, London, on behalf of the Administrator General and the official trustees (£ in lakhs)	£ 4.87	£ 4.46	£ 4.19	£ 4.18
4.	Value of stores purchased by the Supply Wing of the HCI in UK, including contracts and freight charges thereon	Rs. 11.20	Rs. 3.63	Rs. 3.41	Rs. 2.27
5.	Expenditure incurred by Indian Missions/Posts in Europe and by other Govt. of India offices, autonomous bodies/offices of Public Undertakings in Europe	Rs. 2.24	Rs. 6.4	Rs. 5.30	Rs. 15.15

* Figures abnormally high on account of payment of interest on loans from 1DA, U.K. and other countries, payments towards purchase of fertilisers, steel and other stores.

The number of units subjected to local audit for selective years were as under :

Year	Number of units subjected to local audit	Annual	Over 30 lakhs	Between 20 and 30 lakhs	Between 10 and 20 lakhs	Below 10 lakhs
			Biennial	Triennial	Once in four years	Quinquennial
1987-88	18	4	6	4	-	4
1986-87	12	5	2	3	1	1
1985-86	21	4	3	2	2	10
1984-85	25	5	1	1	6	12
1983-84	19	4	4	1	5	5
1982-83	9	2	1	1	-	5
1981-82	13	3	2	-	3	5
		Large Missions	Medium Missions	Small Missions		
1980-81	13	4	1	8		

AUDIT RESULTS

The recoveries effected at the instance of Audit varied from Rs.2.39 lakhs in 1980-81 to Rs. 25.04 lakhs in 1985-86 and the average recovery during last seven years was Rs. 7.3 lakhs.

The important points noticed during audit were included in the Audit Reports relating to the Union Government - both Civil and Defence Services. During the period from 1975-76 to 1985-86, 55 paragraphs were included in the Audit Reports, ranging from 2 to 11 each year (the highest contribution was made in 1982-83). During the last three years 6 to 8 paras were contributed. One review of India Mission (Supply Wing) bringing out various defects and omissions was included in the Audit Report (Civil), Union Government, 1979-80, which resulted in transfer of all procurement work on behalf of the Defence Services, hitherto done by Supply Wing, London, to the respective Services Headquarters in India from August 1984.

A manual containing the organisation, Office procedure and administration reporting, Central and local audit/inspection was brought out in 1967 for the guidance of audit staff in their work. A revised edition in two parts was issued in 1986 - Part I dealing with matters relating to office establishment and office procedure, general procedure for audit and detailed procedure for audit of the High Commission of India in London, Indian Missions and posts in Europe and units and office of the Public Sector Undertakings and Part II dealing with matters relating to the audit of contracts placed by the supply wing of the High Commission, London.

DIRECTOR OF AUDIT, INDIAN ACCOUNTS, WASHINGTON

Before the Second World War, India's expenditure in USA was negligible and the transactions were few and far, which arose initially in India or in the UK, and payments, if any, to be made in the States were arranged through Bank remittances, and the accounting and audit were carried out in India or the U.K., as the case may be. During the war and afterwards, India's foreign expenditure increased by leaps and bounds mainly due to procurement of foodgrains and the capital goods from America and emergence of new diplomatic missions in the North and South America after India became independent. There were long delays in the accounting and audit of transactions in the United States and no local audit of the enormous expenditure in the State was conducted. The Audit Officers in India were not able to conduct even centrally any real audit of the expenditure on purchases in the States, as they did not receive the necessary documents like purchase files, contract documents etc. and audit was confined merely to seeing that the stores shipped from the States were duly received and accounted for in the consignees' stores ledgers. Lack of knowledge of local conditions involved lot of unnecessary correspondence between the audit offices in India and the Government of India Offices in the states.

ORIGIN

The need to provide for effective audit of the expenditure incurred by Government of India in USA was felt by Shri V. Narahari Rao when he visited USA in July 1950 and Shri G.S. Rao, OSD was deputed to study questions relating to the opening of an Audit Office in Washington. His report, which was described as an illuminating document by the CAG fully established the case for setting up the Audit Office in Washington. In 1950-51 alone, the expenditure amounted to $111.4 million of which $111.5 million was on account of supplies. Of the total number of 54000 bills paid during the year, nearly 40000 related to supplies which were almost entirely unaudited. Comptroller and Auditor General observed "that the provision of efficient audit of all that is in the interest of tax-payer needs no further justification .... and" so far as audit of the Embassy and the Supply Mission in Washington are concerned, it should be possible to conduct the prescribed audit locally and concurrently without adopting too closely the model of on Indian Audit Office. The model to be followed should be more of the London Audit Office .... I would emphasise in this connection that I shall expect the Officers and Superintendents to do original work taking very important cases and not follow the model of Indian Accounts Offices, where most of the audit work is initiated by Clerks and Superintendents and Officers only review a proportion of the work. The organisation of the new Audit Office is such that it can be justified only on the basis of the officers and the S.A.S. men doing original audit work. Indeed, I expect them to do the entire original audit work and not leave it to the local staff. This is also the practice of the London Audit Office". The office was set up in August 1951, when Shri G. Mathias joined as the Audit Officer, Indian Accounts, Washington and was assisted by one Assistant Audit Officer, four SAS Accountants, one clerk and one typist, a Secretary and a messenger and was entrusted with the audit of the accounts of Indian Embassy in Washington, including its attached offices, such as the Indian Information Services, Military and Air Attache etc. and the India Supply Mission and conducted local audit of the office in the two Americas. Initially the post was in Comptroller grade but was subsequently reduced to Junior Administrative Grade from November 1961. In all, 15 officers held the post of Audit Officer/Director of Audit; the maximum tenure was 4 years' 1 months and 9 days held by Shri N.K. Bhattacharya.

ORGANISATION

The office was headed by a senior IAAS Officer with the designation of Audit Officer Indian Accounts, Washington who was assisted by the Assistant Audit Officer who looked after office establishment, local audit of expenditure and connected work and checked mostly, accounts of the Embassy of India and the I.S.M. One Accountant who carried out the concurrent audit of contracts placed from April 1952, two accountants for auditing arrears of contracts relating to purchase of all commodities other than food, fertilisers and rails and investigation of *ad hoc* cases referred by various Audit Offices and a clerk for auditing concurrent audit of contracts and related contract payments and a typist and a stenographer. The Audit Officer was re-designated as Director of Audit with effect from January 20, 1962. While the requirements of SAS accountants were met by deputation from India, the stenographers and the clerk were deputed from India or recruited locally at Washington. The strength of SAS accountants was increased to 5 in 1957, 6 in 1958 and to 7 in 1961 but stood reduced to 6 during 1963 to 1972 except for up-gradation of one post of SAS accountant to that of an audit officer during the period from 15th May, 1970 to 30th July, 1972. The expenditure of the office in 1970-71 was Rs. 8.25 lakhs. In 1973, the strength of SAS accountants was reduced to 5. All the posts of section officers were upgraded to the level of assistant audit officers after restructuring the cadres in the Indian Audit and Accounts Department from 1st March, 1984. In addition to one locally recruited stenographer, a stenographer was also deputed from India with effect from 1955, till 1976, when the post of locally recruited stenographer was abolished. The post of one senior clerk was filled by a local recruit. The strength of the office was 9 in 1988 - 2 IA & AS Officers, 5 AAOs/SOs, 1 PA and 1 Senior Clerk and the expenditure incurred in 1987-88 was Rs. 39.81 lakhs, which represented 0.1% of the total of expenditure incurred and value of purchase orders placed by the auditee Missions.

DUTIES AND FUNCTIONS

The Audit Officer' Washington was entrusted with the responsibility of checking the monthly accounts prepared by the Accounting authorities in the Indian Embassy and ISM Washington before their transmission to AGCR/AGFR & S, auditing administrative expenditure incurred by the Indian Embassy and its attached offices, ISM, etc., auditing the contracts of Supply Mission and auditing the bills for supplies made under contracts. Audit of expenditure was undertaken either centrally or locally depending upon the availability of records for proper and efficient

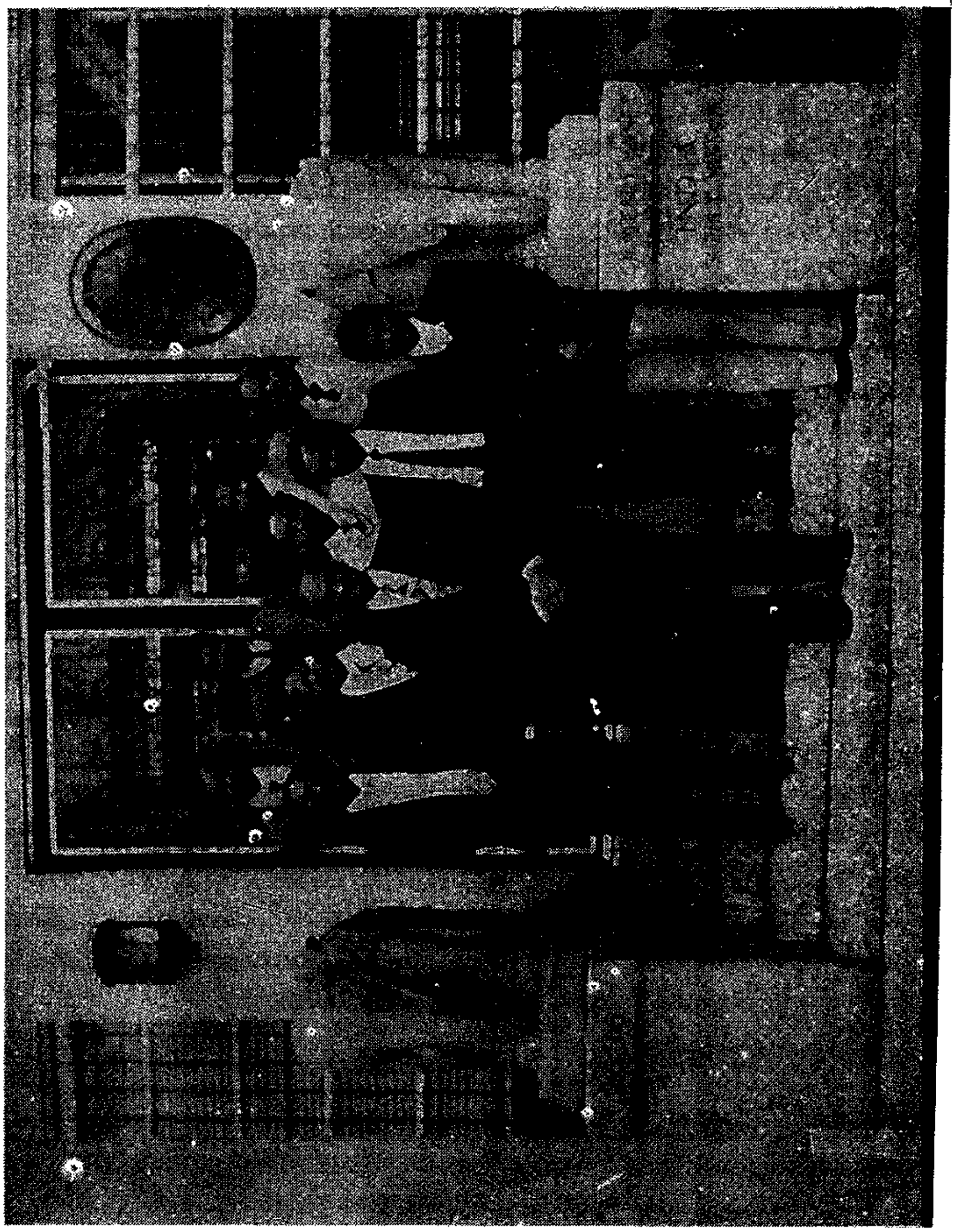


Fig 26.1: Shri Gian Prakash, the comptroller and Auditor General of India, with the officers and staff at the Portico of the office of the Director of Audit, Indian Accounts, Washington.

execution of the work. Audit of contracts was however done on a concurrent basis as the aim was to see that the system of scrutiny of documents before entering into contracts was sound, that there were no unusual conditions in the contracts and that special conditions, if any, were agreed to with adequate justification only. IAAS officers not only supervised the work done by the Accountants but also conducted original audit. While the Assistant Audit Officer looked after the scrutiny of accounts and audit of administrative expenditure, the 'Audit Officer' concentrated on audit of contracts. Based on the experience gained, the arrangements for audit got pruned and stabilised over a period of time. The work relating to the checking of monthly cash accounts was transferred to the Ministry of External Affairs after departmentalisation of the accounts in 1976. The foreign branches/units of Public Sector Undertakings and other Autonomous Bodies located in North and South America and Canada came under the audit jursidiction of the office from April 1981 and detailed guidelines for their audit were issued in May 1983. While superimposed audit is conducted of the accounts of branches/units of Public Sector Undertakings, audit of foreign branches/units of Autonomous Bodies is done as per guidelines issued under Sections 14 and 15 of CAG's Act. Local audit covered expenditure and receipts on account of consular fees and mainly to ensure regularity and propriety. Efficiency-cum-performance audit was undertaken only occasionally after obtaining the approval of the Headquarters Office.

PERIODICITY OF LOCAL AUDIT

The periodicity and duration of local audit of Missions was based on their annual contingent expenditure. The periodicity prescribed in 1974 was revised in 1978, 1980 and in 1981. While undertaking local audit, missions and units in the same region were covered by the same inspection party in one spell as far as possible. The audit jurisdiction of the office covered 22 Missions/posts of Government of India in America and Canada, whose aggregate expenditure during 1987-88 was Rs. 2161.74 lakhs, and 7 offices/branches of public sector undertakings. The value of purchase order issued in 1987-88 was $263.07 million. 542 contracts were audited and 630 contracts were reviewed during the period. According to the orders issued in 1961 the local audit of Missions was conducted biennially, upto the year 1974, based on the contingent expenditure incurred by them. Missions were classified into large, medium and small, based on the quantum of contingent expenditure incurred, for programming the periodicity and duration of audit. The limit of contingent expenditure for classification of the auditee offices, periodicity and duration of the audit were modified in 1981. The

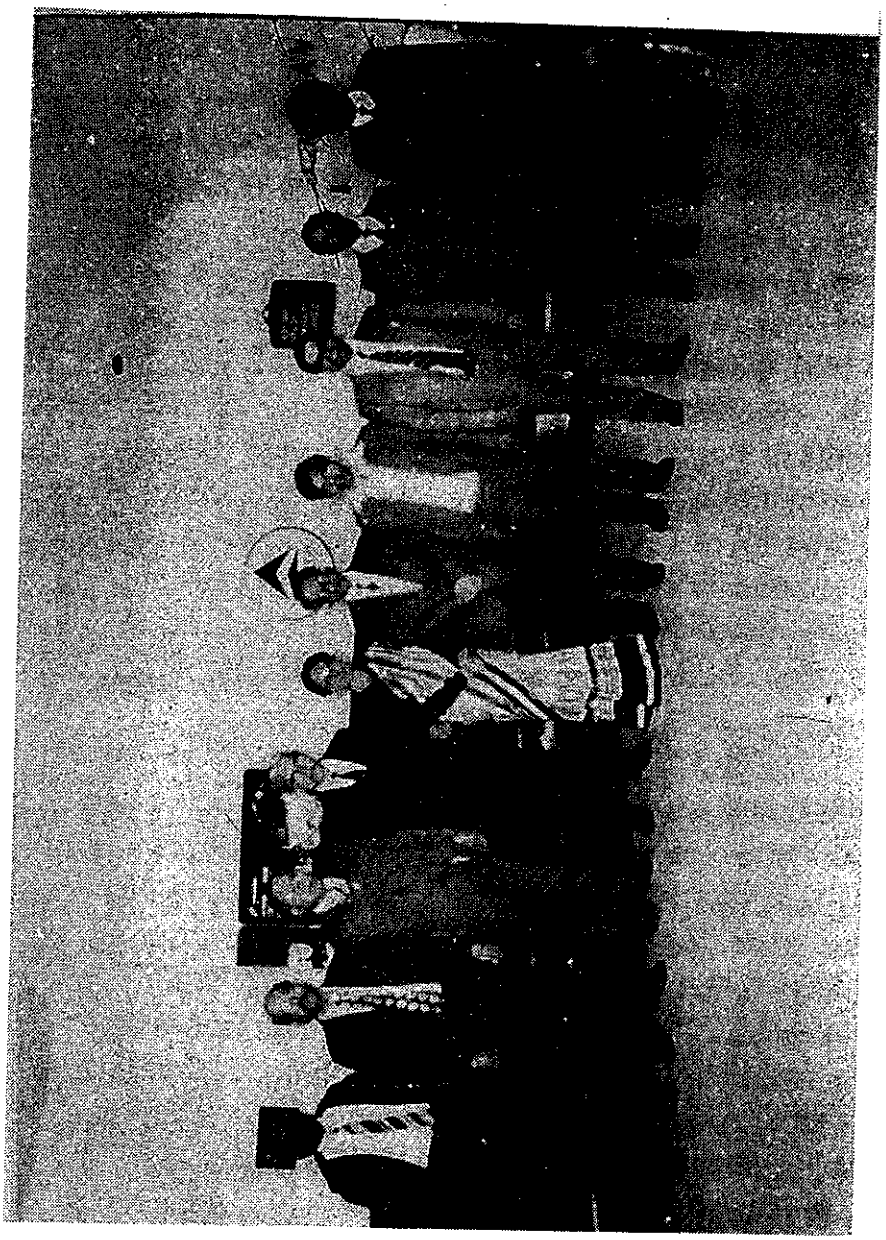


Fig. 26.2: Shri T.N. Chaturvedi, the Comptroller and Auditor General of India, with the incoming and outgoing Director of Audit and the officers and staff.

Missions at Washington and New York, which incurred 53.84% of the aggregate expenditure incurred in America and Canada, were subjected to annual audit. The audit of Government companies was programmed in consultation with the Directors of Commercial Audit from May 1983 onwards. Air India and Indian Air Lines offices were audited annually. The audit of World Fair, New York in October 1964, Stock Account of India Trade Centre in November, 1964, Expo 1967 Montreal in May, 1967, review of promotional expenditure of Air India in October, 1986, comprehensive appraisal on Handloom and Handicrafts Export Council in November, 1986 and audit of annual accounts of "Operation America Scheme" in 1984 were some of the special assignments undertaken by the Office.

RESULTS

The Office contributed 24 paras for the Audit Reports, 1981-82 to 1987-88 - Civil and Defence Services - six paras for 1987-88 Report (1 in AR-DS), six paras for 1982-83 Report, five paras for 1986-87 Report (4 in AR-DS), four paras for 1985-86 Report, (2 in AR-DS), two paras for 1983-84 Report and one for 1981-82 Report.

LIST OF ABBREVIATIONS

1.	AR-DS	–	Audit Report-Defence Services
2.	DA	–	Director of Audit
3.	DDA	–	Deputy Director of Audit
4.	ISM	–	India Supply Mission
5.	JDA	–	Joint Director of Audit
6.	USSR	–	Union of Soviet Socialist Republic

SOURCES AND REFERENCES

1. Manual of Audit of the Office of the Director of Audit, Indian Accounts in U.K., London.
2. M.S.O. (Technical)-Vol.-I.

27 Conferences

THE FIRST CONFERENCE

Shri A.K. Chanda held the First Conference of Accountants General in 1955, which was attended by senior officers of the Headquarters Office and the Heads of the field offices - Civil, Railways and Defence to discuss matters of common interest and issues of topical nature. During his tenure, two more Conferences were held in 1957 and 1959. Since then, the practice of holding the Conference of Accountants General was continued by his successors, the frequency and duration being determined by the compulsions of agenda and pressure of topics to be discussed. Considerable preparatory work for holding the conference was carried out both by the Headquarters Office, and the offices of participating As.G./CA etc. stretching up to six months. Suggestions/ proposals along with papers were invited from each head of the office by Headquarter's Office well in advance of the scheduled dates of conferences, which were examined in depth by the concerned banches and were accepted, were redrafted with or without modification and integrated and consolidated into papers of common topics of interest grouped under broad headings. The agenda and the working papers were approved by the CAG and then circulated to the participants of the conference. Each CAG adopted his own procedure for conducting proceedings of the conference, which normally started off with an inaugural speech for an hour or so by the CAG, followed by brief interventions by the DAI and the participating Accountants General, in the conferences held in earlier years. During the Conferences held by Shri A.K. Roy, immediately after the inauguration, the Conference broke into groups and sub-groups constituted by CAG for examining the various items listed in the agenda and their reports were circulated to the participants for discussion on the following day and the consensus or decisions were summed up by the CAG at the end of the discussion on each subject or topic, as the case may be, and the consensus on intricate issues were referred for further examination by the Headquarters Office for obtaining CAG's orders. The CAG sat through the Conferences held since 1974 and each and every topic in the agenda was discussed threadbare and the decisions were summed up by CAG. At times, there was a closed door session for discussing items of confidential or secret nature, in which only the CAG, DAI and ADAIs and the partcipanting AsG attended and the minutes were not recorded. Otherwise, the minutes of the Conference were circulated to the participating As.G./CAs/

DADS etc. and necessary orders instructions etc. were issued later. The Conference held during the tenure of Shri Gian Prakash also monitored performance of previous Conference. Separate Conferences of Chief Auditors/Directors of Railway Audit or MABs Commercial Audit were held in the last decade.

1961 to 1966

Three Conferences were held during the tenure of Shri A.K. Roy - 4th in July 1961, 5th in September, 1963, and 6th in September, 1965. The fourth Conference discussed three broad categories of topics. Under 'Staff and Organisation', forwarding of applications for outside posts, tour by DAG (OAD), proposal to entrust routine items of work in Provident Fund Sections to LDCs, change in the designation of AAOs, creation of deputation reserve in UD cadre, delegation of powers to As.G., review of expenditure on establishment in audit office, simplification forms, refresher courses for SAS accountants and branch officers, absorption of surplus staff of P & T Audit offices, assistance towards the cost of transport between place of work and residence, hardship caused due to reduction in the rate of daily allowances to the Government servants and suggestions to mitigate them, posting of SAS accountants as relieving hands in OAD parties and providing LDCs to WA sections as diarists, were discussed.

Under 'Audit and Accounts', selection of months for calculation of average statistics, reorganisation of work in treasuries, standards for computing staff in the class IV grade in offices where the messenger system was introduced, clearance of outstandings under Suspense and Assessment of the progress of clearance, clearance of outstandings under "Exchange Account Heads" and "Exchange Account Suspense", comparison of Railway and Civil rates in works contracts, introduction of the system of abstract TA bills in respect of class IV staff, abolition of pre-audit of arrear claims of class IV servants and Contingent bills, settlement of outstanding objections, abolition of central audit of rent returns, powers of audit officers to waive objections in respect of excess over technical estimates of works, delegation of powers to superintendents of Pension sections to attest entries in the Pension Audit registers and registers of Pension Payment Orders, procedure for release and final adjustment of central assistance to plan schemes, problems arising out of non-preparation of proforma accounts by Commercial undertakings, proposal to amend F.R. 26(b) to allow the period of deputation to count for increment in the officiating post, decentralisation of the central audit by establishing small regional offices in the district headquarters, measures to overcome difficulties in the supply for forms, relieving audit of the responsibility in respect of House Building Advances in maintaining index register prescribed in the Audit Manual, raising the limit of cent per cent audit of contingent bills from Rs. 1,000 to Rs. 2,000, reduction in the quantum of audit and review of TA bills in GAD, reduction in the quantum of audit and review of medical bills of non-gazetted establishment, delegation to the DAG and branch officers of powers for the scrutiny and acceptance of orders conveying delegation of powers and simplification of the procedure for maintenance of general provident fund accounts, were discussed. The topics discussed under 'General and Miscellaneous' were issue of distribution lists of IAAS and class II officers annually instead of monthly and problems connected with the progressive use of Hindi and regional languages.

The fifth Conference discussed under 'Staff and Organisation' assessment of SAS accountants for the purpose of categorisation on the basis of reports earned by them while on deputation, training of superintendents in the Accountants General's offices, recruitment of SAS apprentices, procedure regarding promotion of LDCs to the upper division cadre, special pay for the staff of OAD (including Public Works), Inspection parties, examination in regional languages for appointment in the Indian Audit and Accounts Department, setting up of O&M units in Audit offices and incentives for better work.

Under 'Audit and Accounts' topics discussed were efficiency-cum-performance audit of selected schemes, problems facing Audit and Accounts offices in connection with the introduction of democratic decentralisation of state administration, revision of the extent of gazetted supervision in respect of income-tax, sales-tax and central excise revenue audit, departmentalisation of the maintenance of general provident fund accounts of class IV employees of the State Governments, centralisation of the maintenance of provident fund accounts of central services/ departments, abolition of the 'temporary withdrawals register' in provident fund group, state of work in the provident fund sections, accounting of utilisation of central loans to states, difficulties experienced in the payment of advances of pay/TA etc., to officers under the IRLA system of centralised payments, whether revised procedure for public works audit had resulted in an improvement in the maintenance of initial accounts in the divisions, maintenance of public works remittance broad sheets - difficulties experienced in settlement of accounts with treasuries, issue of authorities for payment of grant-in-aid, loans, etc., sanctioned by Governments, change in the date of submission of sub-treasury accounts, administrative accounts of irrigation, navigation, embankment and drainage works - submission to legislature, clearance of outstanding balances under suspense and remittance heads and differences between ledger and broadsheet balances in respect of debt, deposit and remittance heads, clearance of outstandings under exchange account heads and under exchange account suspense, maintenance of register for watching the transmission of wanting vouchers and other documents not sent in the first instance along with settlement account by the originating accounts officer to the responding accounts officer, audit of interest charges in connection with the acquisition of land of Railways, strengthening of internal audit in audit offices and raising the limit of vouchers for check of classification by the superintendent. Preservation of office copies of pay bills consequent on the discontinuance of annual establishment returns, measures to relieve the shortage of forms in the Audit and Accounts offices, training of staff in the scrutiny of contracts in projects and departments handling large contracts and preparation of bulletins of important orders and instructions and the desirability of centralising the work were discussed under 'General and Miscellaneous'.

The Sixth Conference discussed, under 'Staff and Organisation', the question of sanctioning residential telephones for supervisory officers-consideration of, desirability of dispensing with the age limit of 45 as the minimum age for consideration for promotion as Assistant Accountant General or equivalent temporarily, incentive to staff for noteworthy work, grant of advance increment to Class III and class IV staff, and widening the scope of advance increments, grant of incentives for passing regional language test, principles governing the promotion of lower division clerks to upper division clerks and upper division clerks to selection grade clerks and increase in the percentage of departmental promotion, problems of recruitment and training of SAS Apperntices (subsequently SAS accountants on probation), recruitment of LDCs and sorters of the office of the Accountant General, Posts and Telegraphs, in the other Audit offices, provision of residential accommodation for Inspecting staff at outstations, further assistance and facilities to consumers' Co-operative Societies, budgetary control over expenditure and large savings under 'Pay of establishment', training in Revenue audit, reorganisation of big offices into smaller units for efficient management and control and draft scheme for joint consultation and arbitration (whitley councils) and staff association.

Under 'Audit and Accounts', the topics discussed were simplification in the calculation of leave salary, simplification of calculation of earned leave, quanta of audit and standards of work in sales tax revenue audit, proposal for increase in the quantum of customs and revenue audit, proposal for increase in the quantum of gazetted supervision for central excise revenue audit, financial stock-taking of big engineering projects and major development schemes, quantum of gazetted supervision for (i) local audit of statutory/autonomous bodies, (ii) check of returns of the State Bank of India and (iii) efficiency-cum-performance audit of selected schemes, providing separate staff for editing the inspection reports, both in the OAD and WAD wings, relieving the treasuries of their responsibilities for the custody and sale of postal stamps, non-judicial stamps, court-fee stamps, match excise banderols, tobacco excise labels, etc., and maintaining accounts thereof, dispensing with audit and check of classification of vouchers before compilation, changes in posting of works audit registers, audit and accounting procedure in respect of festival advances, dispensing with the maintenance of the dummy provident fund accounts, interest on provident fund advances, printing/cyclostyling of provident fund schedules, improving the alphabetical index of provident fund accounts, maintenance of provident fund accounts of class III government servants whose names do not appear in the establishment pay bills, evaluation of standards for the audit of divisions/circles, etc. of Electricity Boards, clearance of outstanding under exchange account heads, clearance of outstanding balances under suspense and remittance heads and differences between ledger and broadsheet balances in respect of debt, deposit and remittance heads, adoption of departmental balances in place of ledger and broadsheet balances in cases where balances were required to be acknowledged by departmental offices and delay in the closing of March final and supplementary accounts resulting in delay in compilation of State Finance Accounts.

Under 'General and Miscellaneous', the items discussed were publicity for the Appropriation Accounts, Finance Accounts and Audit Reports of the CAG and the reports of the PACs, use of Hindi/Regional languages in the Indian Audit and Accounts Department and period of preservation for the purpose of weeding out of the old records. The decisions taken during the three Conferences manifested in the various changes in rules, regulations and instructions, systems and procedures introduced during Shri A.K. Roy's tenure.

Shri A.K. Roy held the first Conference of Chief Auditors of Railways on 17th April, 1961 which was attended by the DAI, ADAI (Railways) and seven Chief Auditors. While opening the discussions, he suggested examination of the question of enlarging the functions of ADAI (Railways) to cover the scrutiny of expenditure incurred by the Central and State Governments on transport undertakings generally (including all road transport and shipping) to facilitate a co-ordinated review of the financial policy and programmes of Government relating to the expansion of different kinds of transport facilities and posed a question as to whether the Chief Auditors could be declared as Principal

Auditors for the respective Railway administration. The Conference discussed 17 subjects covering audit, supervision, review of inspection reports, non-availability of vouchers for audit, local audit and inspection, supervision, administration and factual statements on draft paras. One of the decisions taken was to entrust the CAs with the work of preparation of draft paras instead of factual statements and issue them to the respective general managers with copies to ADAI (Railways) and for giving directions necessary for processing them and the general managers' comments were to be furnished to the Railway Board so as to eliminate the correspondence between the ADAI (Railways) and the Railway Board.

In the second Conference held in September, 1963 twelve topics were discussed, which included introduction of efficiency audit and overall performance audit in Railway Audit on the analogy of the provisions in paras 56 and 58 of CAG's MSO (Tech.), reduction in the extent and check of certain unimportant items of routine nature, continuance of the existing procedure for the issue and processing of audit paras for the Railway Audit Reports etc.

The third Conference was held in November 1965, which was also attended by four As.G. by invitation, 10 topics were discussed, which covered, *inter alia,* the need to evolve a new technique of audit with a greater flexibility but more purposeful result, revision in the extent of certain items in the programme of audit the extent and scope of audit consequent on simplfication of the accounts procedure regarding certain classes of transactions, frequency and duration of local audit etc. Shri A.K. Roy observed that the Railway Reports had not shown any improvements, as witnessed in the Civil Audit Reports and very little attempts have been made to carry a financial review of schemes and assess their achievements and reiterated the need for audit to be purposeful and to aim at bringing out important defects in the working which cannot be achieved by a mere routine percentage audit and the Chief Auditors were asked to evolve a new technique of audit which may add more flexibility and to be more purposeful.

1967 to 1971

Shri Ranganathan held two Conferences, the seventh in January, 1967 and eighth in February, 1969. The seventh Conference discussed three categories of topics - Staff and Organisation, Audit and accounts and General and Miscellaneous. Increase in the departmental promotion quota to the Indian Audit and Accounts Service, change in the designation of assistant accounts officers, refresher courses for staff in revenue audit branches, conducting training classes for revenue audit, revised scheme for the subordinate accounts service examination and divisional accountants cadre - whether it should remain with the Accountants General or be transferred to State Governments and avenue of promotion for class IV employees, were the topics discussed under 'Staff and Organisation'. Under 'Audit and Accounts', the topics discussed were central excise-commodity audit, state of work in provident fund accounts maintained under the hand posting system, simplification of accounting procedure - minimisation of transactions passed through exchange accounts, clearance of outstanding balances under suspense and remittance heads and differences between ledger and broadsheet balances in respect of debt, deposit and remittance heads, bills for pre-audit, attestation of entries in service books and delegation of powers to superintendents, enhancement in present limits of powers of waiver enjoyed by Civil Audit Officers, form of objection book maintained by the outside audit department (headquarters), and period of preservation of provident fund ledger cards and files in the case of transfer of Government servants from one audit circle to another or from one Government to another. Exchange of the reports of the PACs on reciprocal basis and use of Hindi/Regional language in the Indian Audit and Accounts Department was discussed under 'General and Miscellaneous' topics.

The eighth Conference discussed three broad categories of topics. Under 'Staff and Organisation', passing of Revenue Audit Examination to be made obligatory for promotion of SAS accountants to the rank of an accounts officers, provision of incentive for revenue audit staff, scheme of drafting SAS accountants from other offices to man internal test audit sections, crossing of efficiency-bar and deletion of para 148-B of the CAG's MSO and confidential Report forms for the staff in OAD were discussed.

Under 'Audit and Accounts', revision of standards and increase in gazetted supervision of sales tax revenue audit, abolition of post review by gazetted officers, revision of the present system of maintaining the service cards for gazetted officers in place of history of service, dispensing with the comparison of the entries in the salary audit registers with the gazette notifications, dispensing with the posting in the establishment audit register of the audited vouchers relating to reimbursement of tuition fees in respect of non-gazetted staff, transmission of GPF credits from one circle of accounts to another, noting of the date of birth in the provident fund ledger account/card, transfer of provident fund account from one circle of account to another, due date for sending first list of accounts by treasuries, utility of the various broadsheets maintained in civil audit and accounts offices, maintenance of broadsheets of suspense heads within the works major heads of accounts-proposal for dispensation thereof, clearance of outstanding balances under suspense and remittance heads and differences between ledger and broadsheet balances in respect of debt, deposit and remittance heads and adoption of uniform procedure for acceptance of certificates of payment in lieu of lost vouchers or payees receipts by audit officers, were discussed.

Under 'General and Miscellaneous', preparation in diglot form of state PAC report, which were printed only in the regional language and proposal to change the name of the IAAS Training School to Staff College and redesignation of the Principal to Director and enlarge the activities of the school were discussed. The decisions taken during both the Conferences were reflected in the organisational, managerial, technical and procedural changes introduced during his tenure.

Shri S. Ranganathan held two Conferences of Chief Auditors, Railways in February, 1967 and 1969. During his first Conference he pointed out the necessity for the offices in separated audit offices to go out of the way to ferret out things, unlike in the Civil Audit Offices, where matters flowed upto the AG in the normal course and stressed the need to check the efficacy of internal audit, for maintaining the best personal contacts with the GMs, FA & CAOs, and other Heads of Departments. 10 items were discussed, the most important being the introduction of a new technique of audit with a view to ensure comprehensive and intensive audit of certain activities in the Railways and need to review the working of the Accounts Department in a more amplified and enlarged manner, review of inspection reports and quantum of original audit, current review and post review. In the Conference held in February, 1969, seven topics were discussed which covered training and development of skills at all levels, changes in audit procedures in the light of computerisation of accounts in the Railways and training of staff to apply the new techniques and procedures and processing of material for ARs.

1974 CONFERENCE

Shri A. Baksi held one Conference in April, 1974. The ninth Conference discussed the growth and size of combined audit and accounts offices, problems arising therefrom and viable ways of containing the growth with a view to secure efficient management, reporting and allied matters, disposal of personal claims of serving officials and pensioners, staff relations, welfare and discipline, improvements of training arrangements, accounts, scheme of Additional Accountants General and allied matters and role of the CAG's office vis-a-vis the field offices. The major reorganisation of offices and reorientation of relations between CAG's office and field offices towards more central direction during his tenure were attributable to the deliberations of their Conference.

No Conference of Chief Auditors was held during the AG's Conference in April, 1974. The ADAI (Railways), however, held a departmental meeting of certain Chief Auditors to disucss certain issues raised by them, which included reviews of SMI applicable to Railway Audit and matters relating to staff associations, improvement of training arrangement, role of CAG's office vis-a-vis field offices discussed in the AG's Conference.

1978 to 1984

Shri Gian Prakash held seven Conferences - the record number in six years - the tenth in July, 1978, eleventh in February, 1979, twelfth in November, 1979, the thirteenth in January, 1981, the fourteenth in January, 1982, the fifteenth Conference in June, 1983 and sixteenth in December, 1983. The tenth Conference discussed - organisation of work in the audit and accounts offices, measures to improve the image of the Department in the disposal of personal claims, problems relating to Accounts and Reports and their publicity, Commercial Audit, recruitment of auditors, clerks and stenographers in IAAD and matters connected with IAAS officers. A major policy decision was taken to dispense with the departmental recruitment system in vogue from early times and to entrust it to Staff Selection Commission. The eleventh Conference of selected As.G discussed provident fund and pensions; state of civil accounts, delays in receipt of treasury accounts, outstandings under suspense accounts, cash settlement suspense, PAO suspense, Reserve Bank Suspense (HQ), P.W. remittances-I remittances into treasuires, II cheques, III(b) other remittances-items adjustable by PWD, State of maintenance of broadsheets and other miscellaneous points. A series of measures were taken to tone up execution of entitlement work in the field offices.

The twelfth Conference discussed five groups of topics. Under 'Entitlements', state of work in provident fund sections, delays in the finalisation of pension claims and revision of standards for pension sections and under 'State of work in accounting and other sections', improving the quality of work in accounting sections, arrears in accounting, state of work in civil offices and omissions and defects commonly noticed by the Directorate of Inspection in the various offices, were discussed. Under 'improvements in Audit Procedures etc.', audit of statutory boards and corporations in the states, association of outside experts in conducting audit of Electricity Boards, improvement in the quality of Audit Reports, advancing the finalisation of Audit Reports (Central), settlement of old audit objections and paragraphs in the inspections and local audits and Internal Test Audit were discussed. Under 'Administration', location of headquarters of inspection parties at selected centres within each state, formation of a separate revenue audit cadre, continuance of section officers in one section and economy in expenditure and under 'Miscellaneous' group, use of regional language for Government work in the state, suggestions received for being included in the agenda for the conference and future plan for audit and accounts, were discussed.

The thirteenth Conference discussed six groups of topics. Under 'Entitlements', state of work in provident fund sections, posting of auditors to treasuries for checking provident fund schedules, register of missing credits and debits and annual proving of broadsheets, were discussed. Under 'Accounting and related aspects', topics covered were, merger of departmental compilation and departmental audit sections, suspense and remittance balances and differences between broadsheet and ledger figures under debt, deposit and remittance heads, maintenace of detailed accounts and broadsheets of long term loans and advances to government servants, transfer of balances under debt, deposit and remittance heads relating to Central Government to the Principal Pay and Accounts Offices of the Government of India, control mechanisms in the Accounts sections and checking of treasury lists of payments/cash accounts and supporting schedules/vouchers in the treasury sections, were discussed. Under 'Internal Test Audit and improvements in Audit Procedure', Audit Reports, efficacy of internal test audit, settlement of old audit objections and paragraphs in the inspection reports, measures for improvements in the quality of separate Audit Reports of autonomous bodies, measures to improve the content and quality of civil and public works inspections and improving the quality of Civil Audit Reports were discussed. Administrative topics discussed were preparation of budget estimates and control of expenditure, transfer of the cadre of divisional accountants to the State Governments, revision of norms for computation of staff requirements and introduction of self-appraisal system in IAAD. Training programmes of the department and Planning for accounting and auditing were also discussed.

The fourteenth Conference discussed four broad categories of topics. Under 'Accounting and related aspects', adverse/minus balances in Finance accounts, review of suspense and remittance balances and differences between broadsheets and ledger figures under debt, deposit and remittance heads, reconciliation of differences under the head 'Reserve Bank deposits-state and central' and review of state of work in provident fund and pension sections, were discussed. Under 'Audit Procedures/Audit Reports etc',. Public Works Inspections, analysis of works, and revision of manuals - progress in field offices, were deliberated. Under 'Administration', rationalisation of SAS examination and strengthening of training for SAS, grant of award for good and meritorious work done by staff, were discussed. The progressive use of Hindi in official work in IAAD was reviewed during the Conference.

The fifteenth Conference discussed five categories of topics. Under 'Accounting Procedure and related matters', delegation of powers to section officers in provident fund sections for adjustment of missing credits/debits on collateral evidence basis, reconciliation of differences under the head, "Reserve Bank Deposits-State" and problem of outstanding balances/differences under suspense and remittance heads, were discussed. Under 'Audit Procedures/Audit Reports', delegation of powers to section officers with reference to check of classification of the vouchers, revision of the form and content of Audit Report (Civil), accounting and reporting of Central assistance and their utilisation, delay in appointment of auditors/delay in issuing comments under Section 619(4) of the Companies Act, reconciliation of figures in Commercial Audit Report and the Finance Accounts, issue of inspection reports etc., training of Commercial staff and transfer of number Audit to local audit from Central audit, were discussed. Under 'Administration', stenographic assistance to certain selected branch charges, important common omissions, defects, deficiencies and irregularities noticed in the course of inspection of field offices by the Director of Inspection, were discussed. Under 'Miscellaneous group', the review of progressive use of Hindi in official work and revision of central pensions to be carried out consequent on the Supreme Court Judgment on the writ petition field by Shri D.S. Nakra and others against the Union of India, were discussed. A paper on system of writing confidential report - its usefulness and need for reforms if any, was also discussed.

The sixteenth Conference discussed topics under five broad categories. Under 'accounting procedures and related matters', problems of outstanding balances/differences under suspense and remittance heads, delay in closing of accounts, simplification of procedure for accountal of recoveries towards provident fund, motor car advance, house building advance etc., maintenance of public works broadsheets under the heads remittances into treasuries and public works cheques, and state of work in PF sections, were discussed. Under 'Audit Procedures/Audit Reports', the certification of the accounts of the autonomous bodies and issue of separate audit reports, processing of Audit Reports, planning and executing of reviews, programme of

Reviews for 1982-83 to 1984-85, improving the quality and content of the State Commercial Audit Reports and commercial chapters in AR and improvement in the audit of the state road transport corporations, were covered. Review of training programmes - suggestions for improvement and projections for future and review of O & M work in field offices were also discussed. Under 'Administration and Miscellaneous topics', setting up of departmental guest houses for inspection parties, appointment of caretakers and caretaking staff, regional imbalances in the cadres of section officers, supervision of field audit parties by group supervisory officers for a minimum period of 10 days in a month, provision of Accounts officers for 'Direct Charge' sections and review of progressive use of Hindi in official work in the IAAD, were discussed. The results of these Conferences were amply demonstrated in the various measures taken to improve auditing and accounting including entitlment work, the management and administration of offices, direction, control and monitoring on the restructuring of the offices on a functional basis.

Shri Gian Prakash held the Conference of Directors of Audit of Zonal Railways on 21st December, 1983, when four topics were discussed, most important being the procedure for issue of factual statements on the draft paras, programme of audit in the next Audit Report including reviews, training and examination.

In the Conference held on 7th December, 1984, fourteen items were discussed, five items proposed by the Headquarters Office, which included reorientation of the programme of the Railway Audit, revision of duties of auditors/SOs, consequent on restructuring, training and examination and eight items proposed by the Directors of Audit (Railways), which included revision of time standards for various items of work, certification of net proceeds of terminal tax by the CAG, setting up of internal test audit units and O & M units in Railway Audit Offices, audit of Railway Board's contracts, estimates and on account bills.

1984 to 1989

Shri T.N. Chaturvedi held the seventeenth Conference in December, 1984. The Conference discussed the technical problems arising out of restructuring of cadres and due dates for transmission of accounts to Audit offices, audit of autonomous bodies under the amended Act 1984, Commercial Audit Reports, reconciliation of figures between the Commercial Audit Report and the Finance Accounts, more effective supervision of commercial audit work in separate audit offices, completion of audit and finalisation of comments under Section 619(4) of the

Company's Act and delay in finalisation of accounts by Government companies owned by the State Government, review of O & M work carried out in the field offices, proposal for establishment of National Institute of Government Accounting and Auditing, training in IAAD, revision of manuals, processing of Audit Reports, their preparation and disposal and an approach paper on streamlining accounting systems and procedures in future. An important event of the Conference was the call on the President of India by the CAG, the DAI and other senior officers of the Headquarter's office along with visiting As.G./Directors, a fitting recognition of the constitutional status and position of CAG and IAAD in the Indian Republic.

The Conference of Directors of Railway Audit was held in June, 1987, when 11 items were discussed, 9 proposed by Headquarters Office and 2 by the field offices. The most important items discussed related to the introduction of a new system of issue of draft paras straightaway by the Diectors of Audit, in substitution of the prevailing system of issue of factual statements by them, an issue discussed almost in every Conference since 1961 but which eluded the final delegation to them, although vested with other heads of offices, and ultimately conceded by the then ADAI(Rlys) Shri M. Parthasarathy, known for his bold and innovative approach. The need to ensure quality and conformity to due dates in the programme of reviews for Audit Report 1986-87, revision of quarterly estimates report, scrutiny of Railway Board's contracts and training were also discussed.

These Conferences held during the last 27 years contributed substantially to the conceptual growth of the theory and practice of audit of receipt and expenditure of the Railways and brought out perceptible improvement in reporting of results, apart from helping the ADAI (Rlys) to coordinate the functioning of all Directors of Railway Audit.

Conference of the Members Audit Board and *Ex Officio* Directors of Commercial Audit were held separately in 1978, December, 1982, December, 1983, and December, 1984, which were attended by the heads of all Commercial Audit offices and the DAI and ADAIs and Director (Commercial), where topics relating to Commercial Audit were discussed. Delays in processing appraisals and measures to speed up the process, format, contents and presentation of appraisals, new guidelines and time frame, planning and execution of appraisals diversification of appraisals, audit of financial statements, directions to statutory auditors, annual programme of audit, working of Resident Audit set up, etc. were discussed.

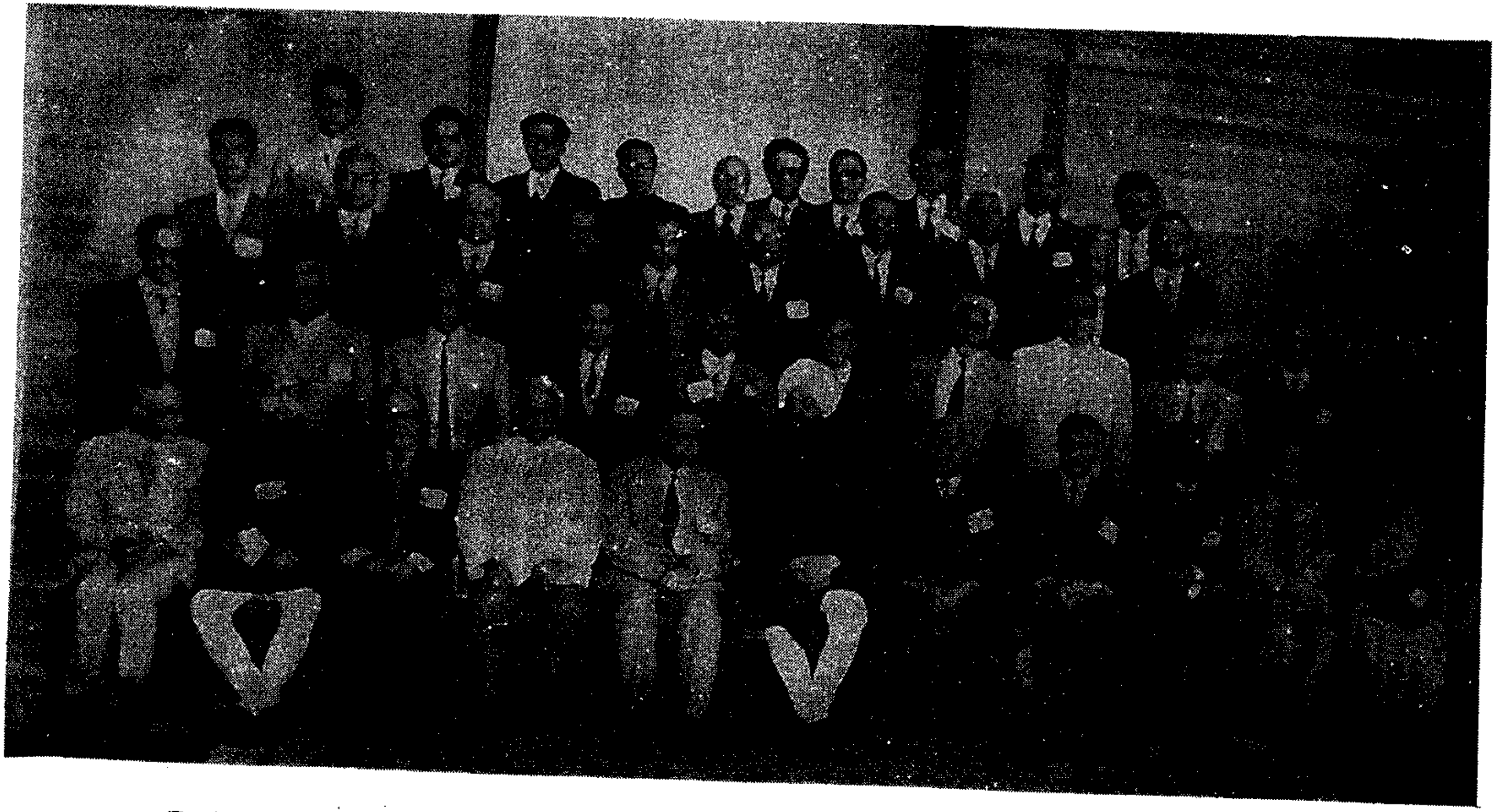


Fig. 27.1: The CAG, DAI, ADAIs and As.G/Ds.A with the President of India during Accountants General and Directors of Audit Conference December, 1984.

Sitting (L to R)	:	K. Rammohan, A.P. Ghosh, S.P. Gugnani, M. Prem Kumar, T.N. Chaturvedi (Comptroller & Auditor General of India), Giani Zail Singh (President of India), R.K. Chandrasekharan, K.N. Row, K.P. Rangaswami, M.K. Behl, Smt. Saraswati R. Rao.
Standing (1st Row)	:	S. Balachandran, B. Sen Gupta, T.K. Krishna Das, S.C. Singhal, M.L. Ray, S. Soundrarajan, N. Krishnan Kutty, V. Sundaresan, R.K. Ganguly, K.R. Parthasarathy.
" (2nd Row)	:	P.M. Sen, T. Sethumadhavan, K.D. Dave, B.R. Mandal, S. Jagannathan, N.G. Mallick, U.N. Ananthan, N. Sivasubramaniam, K.S. Sastry, K.B. Das Bhowmik.
" (3rd Row)	:	K.K. Sharma, A.K. Awasthi, A.K. Chakrabarti, A.N. Mukhopadhyaya, S.P. Kapur, Sunil Verma, A.K. Mitra, C.L. Gupta, K.G. Mahalingam, P.K. Jena.

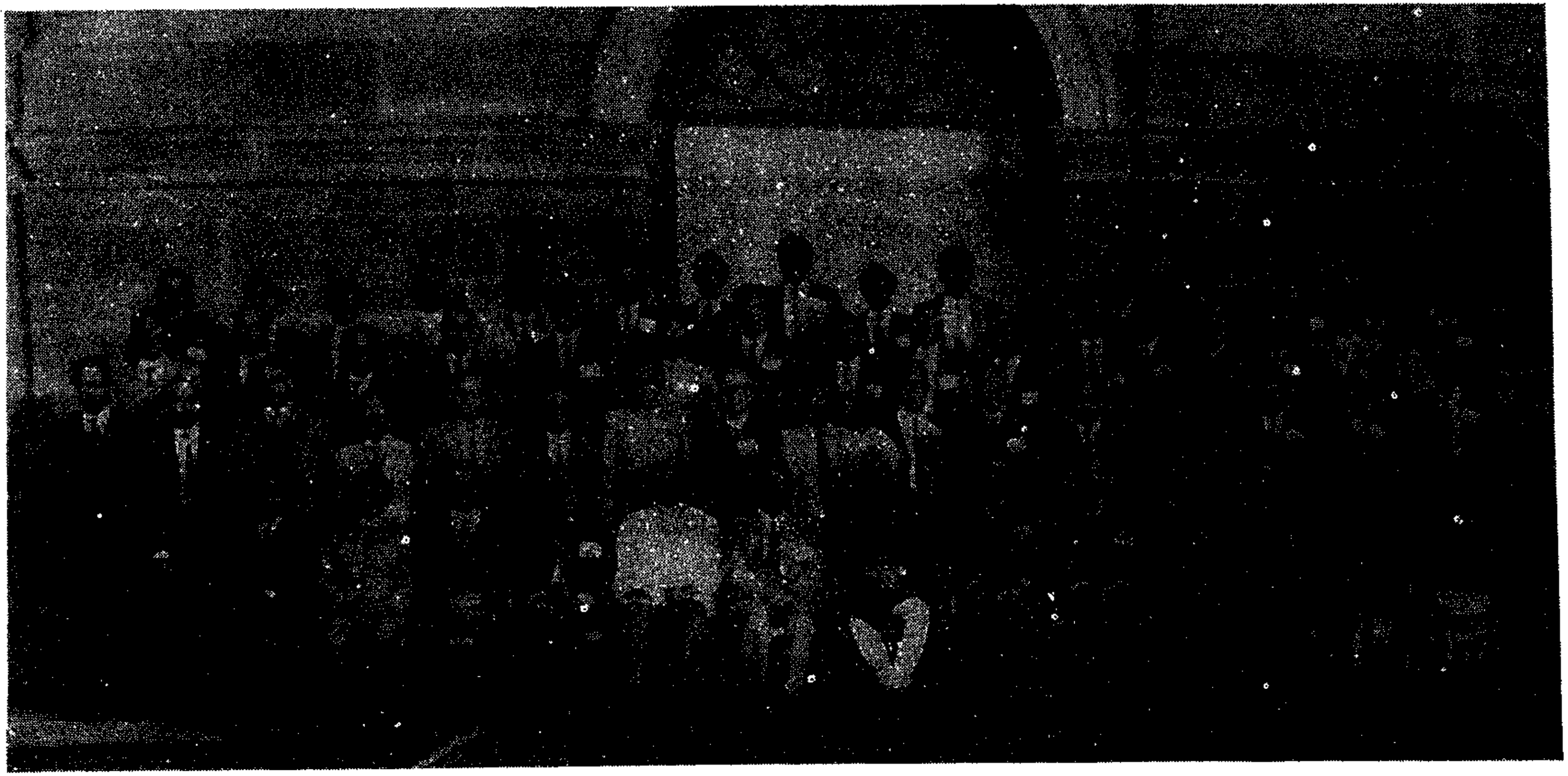


Fig. 27.2: The CAG, DAI, ADAIs and As.G/Ds.A with the President of India during Accountants General and Directors of Audit Conference December, 1984

Sitting (L to R)	:	A.G. Narayanaswami, K. Ranganadham, T.M. George, S.P. Gugnani, M. Prem Kumar, T.N. Chaturvedi (Comptroller & Auditor General of India), Giani Zail Singh (President of India), R.K. Chandrasekharan, K.N. Row, K.J. Kurian, A.N. Biswas, M. Parthasarathy, Smt. Padma.
Standing (1st Row)	:	V. Doraiswamy, J.D. Sud, S.P. Joshi, T.K. Sethuraman, Harbans Lal, S.K. Chakraborty, S.C. Mookherjee, D. Rajagopalan, M.M.B. Annavi, M.N. Patnaik, K. Tyagarajan, S. Panchapakesan, O.P. Goel, S.S. Ahmed, R.S. Sharma, Rajendra Kumar.
" (2nd Row)	:	U.S. Acharya, D.K. Chakraborty, P.G.N. Nampoothiri, R.S. Gopalan, C.K. Joseph, K.R. Gupta, R.V. Bansod, Samir Gupta, G.V.C. Rao, V. Ramanathan, Sampathnaryanan, V. Laxmi Narayan, S.C. Anand, A.K. Deb, V.N. Sudha, R. Chandrasekharan.
" (3rd Row)	:	S.T. Kenghe, D. Sivaramakrishna, J.K. Sharma, S. Gerumurthy, V.T. Sundareswaran, S.J. Ahluwalla, J.S. Mathur, A.K. Jain, P.K. Lahiri, B. Battacharya, K. Krishnadas, A.S. Mohindra, P.V. Krishnamurthy, S.H. Manghani, K. Krishnan, M.V. Swaminathan.

UTILITY AND IMPACT

On the whole these Conferences, have played useful roles and served several purposes in building the personality of the IAAD, during the tenure of each CAG, which could otherwise have not been moulded in the manner in which it has been shpaed by the end of the century. Firstly, it enabled the CAG to get a close look at his heads of offices around a Conference table, who were Principal Audit and Accounting authorities of the states or on specific function entrusted by him, and a glimpse of their individual and collective approach, general ability, involvement and performance, though to a limited extent, but refreshingly different from what is normally fed to him through a system of exception reporting in the Department, including his own office. They also helped to supplement whatever impression, opinion and judgment formed by him from various sources available to him. While they were no substitutes for his own personal visits to the offices concerned, they provided a miniscule picture of the organisation in operation. To the participants spread over the length and breadth of the whole country, it provided unique opportunity to feel the presence of CAG among them, and to express their views and exchange ideas and expertise, on what they were all engaged in the name of CAG of India and exhibit their own ability - managerial and technical, efficiency and performance, correct the wrong signals that might have been given through reports and stories reaching the CAG. Above all, they generated an involvement and esprit de corps in IAAD which is the *sine qua* non of the functioning of any department or organisation of the size, strength and spread like CAG's. They also helped to break the natural barriers and fill the artificial gaps in communication that normally erupt between a headquarters office and large number of field offices - as scattered as the IAAD - a natural concomitant to proximity and distance in a unitary system under a federal organisation and administration. Both gained immensely in framing policies, rules, directions, instructions and evolving systems and procedures for enhancing the efficiency and effectiveness of the Department. The Conferences were also in the nature of the meeting of the professionals and practitioners in Government accounting and auditing in the country. They were both a home coming and get together of a family headed by a single constitutional authority.

LIST OF ABBREVIATIONS

1.	ADAI	—	Additional Deputy Comptrollerand Auditor General
2.	ADAI (Rlys)	—	Additional Deputy Comptroller and Auditor General (Railways)
3.	AsG/CA	—	Accountants General/Chief Auditor
4.	AG's Conf	—	Accountant General's Conference
5.	AR	—	Audit Report
6.	AAO	—	Assistant Accounts Officer
7.	CAG	—	Comptroller and Auditor General of India
8.	CAG'S MSO(Tech)	—	CAG's Manual of Standing Orders (Technical)
9.	DAI	—	Deputy Comptroller and Auditor General
10.	DADS	—	Director of Audit Defence Services
11.	DAG(OAD)	—	Deputy Accountant General (Outside Audit Department)
12.	GPF	—	General Provident Fund
13.	GMs/FA&CAOs	—	General Managers/Financial Adviser & Chief Accounts Officers
14.	GAD	—	Gazetted Audit Department
15.	IAAS	—	Indian Audit and Accounts Services
16.	IRLA	—	Individual Running Ledger Account
17.	IAAD	—	Indian Audit and Accounts Department
18.	LDC	—	Lower Division Clerk
19.	MABs	—	Members Audit Board
20.	OAD	—	Outside Audit Department
21.	O&M	—	Organisation and Methods
22.	PAC	—	Public Accounts Committee
23.	P&T	—	Post and Telegraph
24.	PW	—	Public Works
25.	PWD	—	Public Works Department
26.	PAO	—	Pay Accounts Officer
27.	SAS	—	Subordinate Accounts Service
28.	SO	—	Section Officer
29.	SMI	—	Secret Memorandum of Instructions
30.	TA	—	Travelling Allowance
32.	UDC	—	Upper Divisional Clerk
32.	WA	—	Works Audit
33.	WAD	—	Works Audit Department

SOURCES AND REFERENCES

Agenda Notes and Minutes of the Proceedings of Conferences of AsG., Chief Auditors of Railways and Members Audit Board and Ex-Officio Directors of Commercial Audit.

28 Public Accounts Committee

ORIGIN

The Public Accounts Committees, both at the Centre and in the Provinces, were constituted for the first time under the Montague-Chelmsford Reforms in 1921. Rules 51 and 52 of the Indian Legislative Rules framed under Section 67(1) read with Section 129-A of the Government of India Act 1919 governed the composition and functions of the PAC in the Assembly, which continued to be in force even after the Government of India Act, 1935, by virtue of Section 38(3) of the Act. The maximum strength of the PAC, including the Chairman, who was the Finance Member of the Governor General's Council was fixed at twelve. Not less than two third of its members were elected by the non-official members of the Assembly, according to the principle of proportional representation by means of single transferable vote and the rest were nominated by the Governor General. The members were elected by a method of rotation. One half of the members selected by lot, retired at the expiry of the first year from the date of the election and the remaining members retired at the expiry of the second year from that date but the retiring members were eligible for re-election. While moving the motion for the election of the first Public Accounts Committee, Mr. W.M. Hailey (later Sir) in the Legislative Assembly on the 22nd February, 1921 explained the functions of the Committee. *"The Committee, in scrutinising the Audit and Appropriation Accounts of the Governor General-in-Council, shall satisfy itself that the money voted by the Assembly has been spent within the scope of the demand granted by the Assembly; its further duties are to bring to the notice of the Assembly every re-appropriation from one grant to another grant, every re-appropriation out of the grant which is not made in accordance with rule, and all expenditure which the Finance Department has requested should be brought to the notice of the Assembly"....** "They will call the attention of the Assembly to any case in which there is proved to be either an offence against financial rules or a waste of public money, and it will be for the Assembly, either by resolution or by the other constitutional means within their power, to put pressure on

* LA Debate dated 22nd February, 1921, page 333.

** LA Debate dated 22nd February, 1921, page 334.

Government to take proper action in the matter. Let me add, that there is a still wider field for the Committee when it gets, if I may so express myself, thoroughly into its stride. It may be able to compare the scale of expenditure of one Department with another and to point out economies as a result. It may be able to point out where larger financial recoveries can be made on the public accounts. It may be able to reveal cases where expenditure has been incurred on hasty or unbusinesslike lines." Sir Frederic Gauntlett, the then Auditor General had played* a silent but dominant role in the establishment of PAC at such an early period in the Constitutional development of the country. He had the vision and foresight to see that whatever might be the stage of Constitutional development in the country, there was considerable value in the financial actions of the executive government being subjected to a close scrutiny by a Committee of the legislature.

The Public Accounts Committee examined for the first time the accounts of the year 1921-22. During the span of 25 years, the Committee came to be recognised as a major force in the Legislative Control over Expenditure, despite the limitation of its Constitution and the restriction of its authority and exercised increasing influence on actions of Government from time to time. The Committee sounded the bell, in its very first report, when it observed "The Departments of the Government of India will realize that they are now, for the first time, being brought face to face with the necessity of justifying their expenditure in detail to a responsible body of representatives of the Indian tax-payer. By realising this, they will be led, naturally, as expenditure is incurred during the course of the year, to keep in mind and devise machinery for the task of justifying their expenditure before the Assembly"$. During 1922-23 to 1945-46, the PAC presented, 33 reports containing 520 recommendations. While during 13 years only one report each was presented, in 10 years two reports each were presented and the number of recommendations varied from 12 to 28, the average number being 16.

SIGNIFICANT ACHIEVEMENTS

A few of the achievements of the PAC are worth recalling, both for historical and constitutional importance to the development of the Committee in India, prior to transfer of power.

Supplementary Grants and Excess Expenditure : The Committee sought to secure effective legislative control over the expenditure incurred by the Government from its very inception. In their Report on the accounts for

* Shri G.S. Rau Deputy Auditor General of India.

$ Interim Report of PAC 1921-22, para 4.

the year 1921-22, the Committee examined the then existing practice of re-appropriation of funds from one head to another and obtaining of supplementary grants on the basis of revised estimates of expenditure prepared by the Finance Department and expressed the view that proposals for supplementary grants should be framed in full consultation with the administrative authorities concerned with the expenditure. In regard to regularisation of excess expenditure, the Committee recommended* "if after the accounts for the year are closed, the total grant under any demand has been exceeded, the excess ought to be regularised by a vote of the Assembly. The excess would, in the first instance, be examined by the PAC and in making a demand for an excess grant, the Government would place before the Assembly any recommendations that the Committee might desire to make." These changes in procedure were accepted by the Governor General-in-Council.

Re-appropriation of Funds : Under the Rules, the Public Accounts Committee was required to bring to the notice of the Assembly (i) every re-appropriation from one grant to another and (ii) such of the re-appropriations within a grant which were not in accordance with the Rules prescribed by the Finance Department. With regard to the first category, the Committee emphasised time and again that* "grants voted by the Assembly can be added to only by the Assembly and that funds transferred to a grant from another grant or from a non-voted head are invalid, unless voted by the Assembly." The Government accepted these principles and explained that certain cases of transfers of savings from one grant to another in the accounts for 1923-24, were due to some misunderstanding on their part. With regard to the re-appropriation of savings within the grant, the Committee observed** that ordinarily the Executive should have the power to vary expenditure within the purpose of the grant. In their opinion, the remedy for preventing abuses of this power was to split up the grant into two or more. Following this principle the Committee further suggested sub-division of the demands of the Posts and Telegraphs Department and the Railways. The suggestion was agreed to by Government and the recommendations of the Committee were implemented by splitting up the demands of Posts and Telegraphs and Railways.

Control over Expenditure : While examining the Report on the accounts for 1923-24, the Committee observed" a careful watch over expenditure is also useful in this respect, that it will at once bring to the notice of the

* Report on the Accounts for 1921-22 - Para 19.

* Report on the Accounts for 1922-23 - Para 14.

** Report on the Accounts 1921-22 - Para 22.

controlling authority cases in which there is any particular slackness in expenditure, or where expenditure is being incurred at a too rapid pace, irrespective of prudent financial consideration. It will, in short, enable him to regulate the pace of expenditure so that he can utilise the funds at his disposal in the most useful and economic way." @Accepting the recommendation of the Committee, the Governor General-in-Council issued necessary instructions in this regard. Authorities were nominated to watch progress of expenditure in the case of each Demand for Grant against the budget provision. They were also required to bring to the notice of the Department concerned any anticipated excess or saving in the actual expenditure.

The PAC commended the setting up of Pay and Accounts Offices, as an experimental measure under the scheme of separation of audit from accounts in certain Departments at the Centre and the United Provinces. In para 24 of their Report on the Accounts for the year 1924-25 the Committee observed@@ : "It is too soon yet to arrive at final conclusions in regard to the general experiment of separation of accounts from audit, but we feel it our duty to record the very favourable impressions which the new system of Pay and Accounts has made upon us in this early stage of its application during which it has, unless we are greatly deceived, in the case of New Delhi, repaid several times over the extra cost involved, thanks to the increased efficiency and economy which has resulted."

Scrutiny of Revenue Receipts : The competence of the PAC to comment on questions arising in connection with the revenue receipts was raised. The Auditor General explained that under the statute, the Assembly and consequently the Public Accounts Committee had nothing whatever to do with the estimates of Revenue or anything concerned with Revenue. The Committee in their Report for 1923-24 disagreed with this view and stated that any serious failure to collect revenue or defalcations, which had the results of reducing the revenue collections were *ipso facto* within their purview. They desired the Finance Department to examine this question further in consultation with the Legislative Department. The Governor General-in-Council agreed with the views of the Committee and held that the Committee was competent to deal with receipts in so far as matters relating to such receipts were mentioned in the Appropriation Reports.*

New Items of Expenditure : The PAC after examining the accounts for the year 1923-24, observed that a new and important item of expenditure

@ Report on the Accounts the 1923-24 Paras 18-26
@@ Report on the Accounts for 1924-25 para 24.
* Report on the Accounts for 1924-25 Vol. I Para 9.

not contemplated, when the original estimates were framed and the cost of which can be met from savings within the Grant should be brought to the notice of the Legislative Assembly by means of a 'token' vote. The Government referred it to the Secretary of State, since it involved an amendment to the Indian Legislative Rules, which was finally approved and the Rules were amended accordingly in December, 1928.**

EXPENDITURE ON "NEW SERVICE"

The PAC of 1925 had suggested that new and important items of voted expenditure not contemplated, when the original estimates were framed, of which the cost can be met by re-appropriation within the grant, should be brought to the notice of the Assembly by means of a token vote. The Committee, while examining the accounts of the year 1924-25, reiterated this view. While accepting the view of the Committee, Government experienced some difficulty in devising a precise definition of the term "new service". The Committee, which examined the accounts for 1926-27, observed that "We agree with the Auditor General that, as in England, there should be no cast-iron rule and that the application of the term to concrete cases could best be governed by the evolution of a body of case law. We recommend that, in placing cases before the Standing Finance Committee, the Government of India should state whether the expenditure is in respect of a new Service; and that, if Audit holds a different view in particular cases, such cases should be brought to the notice of the Public Accounts Committee through the Appropriation Accounts."*

The Committee, reporting on the accounts for 1930-31 further considered the question of regularisation of expenditure under a "new service". The procedure to be followed in such cases was discussed by the Chairman, PAC with the President of the Legislative Assembly and it was agreed that the action must be regularised by obtaining the formal approval of the Legislative Assembly to the whole expenditure and that in future, if there be any case of new service in the Appropriation Accounts of a year, the usual form of the Resolution for taking the report of the Public Accounts Committee into consideration should be expanded so as to include "and that the Assembly do approve the expenditure of Rs. —— on ——". The Government accepted the new procedure recommended by the Committee.**

Expenditure from Miscellaneous Reserve Fund : Out of monies voted every year by the Assembly under the head "Miscellaneous Reserve

** Report on the Accounts for 1923-24 Para 20.
* Report on the Accounts for 1926-27 Para 22.
** Report on the Accounts for 1930-31, Part II Para 29.

Fund" placed at the disposal of the Finance Department, expenditure was incurred on new items, not included in the budget estimates. The PAC felt that in all cases a vote of the Assembly should be taken to regularise the expenditure under the specific Grant. They also suggested the formation of a Civil Contingency Fund on the lines operating in England, whereby expenditure incurred from the Reserves could be reimbursed subsequently. The Government of India considered the suggestion of the Committee, but certain legal objections were raised to the creation of such a fund and it was felt that the difficulty could be met only by an amendment of the Government of India Act. The Secretary of State to whom the matter was referred also did not approve of the suggestion.*

Control over Defence Expenditure : The Competence of the Committee to deal with the Defence expendiure, which was non-voted, was doubted. The Committee that met in 1923 considered the Audit Reports on Army, Marine and Military Works Accounts for the year 1921-22 with the assistance of the Financial Adviser, Military Finance and the Military Accountant General. In 1924, the relations between the Auditor General and the Military Accounts Department were considered with reference to the preparation of the annual Appropriation Accounts and Audit Reports on Military Expenditure. It was then agreed that while the Auditor General's Report on military expenditure should be submitted to the Secretary of State, a copy should be placed before the Public Accounts Committee for their information only. At the same time, it was felt desirable that the Auditor General's Report on military expenditure and the Appropriation Accounts on which it was based should be subject to some definite and responsible examination, and the then Finance Member undertook to arrange for the examination of the Reports by a Committee of a Departmental character working under the Finance Department. An *ad hoc* Committee to examine the Military Accounts, *viz.* the Military Accounts Committee was set up and the report of this Committee was placed before the PAC and incorporated as part of the latter's report.

In 1926, the constitutional position of the PAC was examined by the Finance Department in consultation with the Auditor General and the Legislative Department, and it was held that constitutionally the Defence Services Appropriation Accounts stood on the same footing as the other Accounts so far as the jurisdiction of the PAC to deal with them was concerned. In para 31 of their report on the Accounts for 1929-30, the PAC decided that in future the Military Accounts Committee should

* Report on the Accounts for 1923-24 Paras 30-33.

consist of the Finance Member as Chairman, the Finance Secretary and three non-official members nominated by the PAC from amongst themselves. The Military Accounts Committee was reconstituted accordingly. It considered the Defence Accounts and submitted its report to the PAC. The reconstituted Military Accounts Committee continued to function on this basis upto 1947, when the PAC decided* to dispense with the special treatment meted out to Defence Audit Reports.

Budgeting for Works Expenditure : The PAC for 1935-36 examined in detail the difficulties involved in budgeting accurately for works expenditure and suggested new procedure with a view to ensuring proper parliamentary control. In the case of expenditure incurred by the M.E.S., the P.W.D. and the Railway Departments, the Committee observed that ordinarily a project should not be included in the estimates until it is sufficiently advanced so as to be ready to have money spent over it during the year. Appreciating, however, the difficulties in drawing up works programme generally one year in advance, the Committee suggested that Government should append with the Demand for Grant a further list of "Works in contemplation" in addition to the items included in the budget. Works from this supplementary list could be taken up if at the time of execution it was found that one or other of the items included in the original list, for some cogent reason, could or should be postponed. The Committee suggested that this supplementary list of works should not be more than 25% of the budget list. In the case of Civil Works, the Committee observed that funds granted by the Assembly could be re-appropriated by the Department and spent on some urgent and unforeseen project which has to be carried out at once. In such cases the Industries and Labour Department should be the authority to decide between the relative priorities. The Appropriation Accounts should record the reasons as to why the project could not be foreseen at the time of preparing the budget.**

Secrecy of Proceedings : The propriety of admission of the Press to the meetings of the Committee was considered by the PAC, while examining the Appropriation Accounts of 1929-30 in 1931, and the view held was that the meetings of the Committee were of a secret nature and it would not be in consonance with the Parliamentary convention to make available to the Press their report and evidence tendered before them, until their report had been finalised and presented to the Legislature, on the analogy of the practice prevalent in the United Kindgom. The

* Report on the Accounts for 1945-46 Para 3.

** Report on the accounts for 1935-36 Para 6.

Committee, however, acquiesced in the issue of a daily Press Communique showing the important matters examined by them during the day for the information of the public for educative purposes.

Witnesses : The tendency of the spending departments to brief or depute their junior officers to appear before the Committee was deprecated by the Committee. While examining the Accounts relating to the Home Department for the year 1943-44, the Public Accounts Committee (1945-46) took objection to the Department not being represented at the meeting by its Secretary. The Committee upheld the established convention that the Secretaries of the Departments should appear before them and relaxation made during the War years, when the Secretaries could not attend the meetings on account of urgent war work, should be withdrawn.

Implementation of recommendations : Omnibus Resolutions were recorded by the Government of India on the reports of the various committees set up, from time to time, by the Government from 1923 onwards. A former Auditor General observed that whatever the drawbacks of such a procedure might be, one advantage of these Resolutions, however, was that they assured early implementation of, at least, those recommendations of the Committee, which were acceptable to the Government. In 1929, the propriety of issuing such Resolutions, which dealt not with a single subject but with a large number of transactions having no necessary connection with each other was doubted. Such a Resolution could be adequate only when the Government has taken a decision on all the recommendations of the Committee. On the other hand, if the Government were to wait for issuing such a Resolution till decisions were taken on all the recommendations, it would have involved considerable delay. The Government suggested that the better alternative would be to follow the English practice, as adapted to Indian conditions, *viz.*, that the Public Accounts Committee's Report should always contain from year to year a schedule showing the action taken by Government on the recommendations made in previous years, and year by year the Public Accounts Committee would deal with the facts disclosed in this schedule. The PAC was also not satisfied with the type of Resolutions adopted by the Government. While dealing with the accounts for 1927-28, it considered the matter and recommended that as soon as the report of the Committee appeared, the Finance Department should prepare lists enumerating the points and recommendations, including those in the proceedings attached to the Report, which concerned each Department and circulate for immediate action for reporting on each item action taken within a fixed date, and send supplementary returns at regular periods, until all the recommendations were disposed of to the satisfaction of the Finance Department. Government accepted the recommendations in 1930 and started the practice of issuing quarterly statements of action taken by the various Departments of the Government of India on the recommendations of the Committee, which were prepared by the Finance Department. After the introduction of the new procedure, the Committee ascertained directly from the Departments the action taken by them on the recommendations contained in its Reports and also on recommendations left outstanding from the previous Reports. In cases, where the action taken was not reported to the Committee, it took exception to such an omission. The PAC that scrutinized the accounts for 1929-30 was evidently not satisfied with the machinery evolved for the purpose and did not find the Finance Department sufficiently alert in ensuring the implementation of its recommendations and commented regretfully "while recording our appreciation of these quarterly statements (of action taken by various Departments on the Committee's recommendations prepared by the Finance Department), we wish to point out that the Finance Department has yet to evolve an entirely satisfactory machinery to expedite and coordinate departmental action on our recommendations. Various instances came to our notice where it appeared that Departments adopted a dilatory attitude in regard to our recommendations. We consider that each Department should delegate the duty of scrutinizing our Report to a responsible officer of the Department and that such officers should be in close touch with the Secretary of the PAC throughout the year."* The Government of India agreed with the suggestion of the Committee and as a result, liaison officers were appointed in the Departments to look into the Reports of the Committee.

The PAC on the accounts for 1933-34, however, complained about the delay which occurred in implementing the recommendations of the Committee. The Departments were asked "to avoid such delays in future". It was suggested by the Committee, if so desired by the members, "to examine the action taken by the departments on the various recommendations and suggestions of the Committee". As late as 26th November 1946, when the Report of the Public Accounts Committee on the accounts for 1944-45 was signed, the Committee was still urging on the Departments the need for prompt action on its recommendations, and desired that, the Departments should not only issue orders for such implementations, but should also see that the

* Report on the Accounts for 1929-30 Para 20.

recommendations were actually carried out in practice. The Committee observed that* "it must also be realised that this action is not complete with the issue of an order, memorandum or circular. The Departments concerned should satisfy themselves that the instructions issued as a result of our recommendations are observed in practice and prompt and effective action should be taken against officers who repeat the irregularities commented upon by us." Accordingly, the Finance Department started the practice of sending "extracts from the report and the proceedings" to the Departments concerned in advance of the printed copies of the Reports of the Public Accounts Committee, so that action was taken on the recommendations "as expeditiously as possible". These repeated efforts on the part of the Public Accounts Committee to secure implementation of its recommendations were, if nothing else, an eloquent testimony to their earnestness.

The practice of preparing quarterly statements was discontinued at a later stage. For some years prior to Independence, only one statement on a yearly basis was compiled by the Finance Department which included, the items which were left outstanding from the previous Reports. As usual, this was also compiled by the Finance Department, on the basis of the information furnished by the Departments concerned. The Public Accounts Committee, in its own way, kept a track of its recommendations and off and on, addressed the Departments directly in the matter.

Discussion of Reports : The PAC on the accounts for 1925-26 and 1926-27 recommended to the Government to consider the best method for giving the Assembly an adequate opportunity for discussing the Reports of the Committee, which was repeated subsequently. The then Finance Member, Sir George Schuster moved for consideration the Report of the Public Accounts Committee on the accounts for 1927-28 on the 31st March, 1930 which was by a general discussion and further consideration of the motion was resumed in the Assembly on the 7th July 1930, the first day of the next session but motion was not put to vote as agreed to earlier. The Chair gave the ruling that "I would like to inform the House that, accepting the recommendations of the Public Accounts Committee, the Hon'ble Mr. V.J. Patel, in consultation with the Honourable Finance Member, had decided that the House would be given an opportunity to have a general discussion on the Report of the PAC. Therefore, no question will be put to the House on the Report."Winding up the debate, Sir George Schuster pointed out the utility of such discussions and said, "I am convinced myself that these discussions will be of value, and even if

* Report on the Accounts for 1944-45

they do not lead to any definite recommendation or definite Resolution, I think the opportunity which is afforded for calling attention to points of public interest is one which ought to be taken, and that it will be well worthwhile for this Assembly always to devote a day for that purpose. ... such discussions would be held every year and would lead to the evolution of some definite procedure in course of years".*

On 4th February, 1931 the Assembly formally considered the Report of the Public Accounts Committee relating to the accounts for 1928-29. The debate was opened by the Finance Member. It evoked a general discussion as had happened in the previous years. After the Finance Member had replied to the debate, the President put the motion that the Report of the Public Accounts Committee on the Accounts of 1928-29 be taken into consideration to vote and the motion was adopted. This procedure continued till 1943. On 21st November 1944, when the then Finance Member, Sir Jeremy Raisman moved the motion for taking the Report into consideration, one of the members of the Assembly moved an amendment, *viz*., "That after the words 'taken into consideration' the words 'and having considered it, the House is of the opinion that as grave irregularities have been observed in expenditure of large amounts in war, publicity and other matters, steps should be taken immediately to put down these irregularities', should be added." The Finance Member accepted the amendment, as he found nothing in it, with which he was not in agreement. The amendment was adopted and the motion was passed, as amended. Since then, not only was a day set apart in the Assembly for considering the Report of the Public Accounts Committee, but amendments could also be moved with regard to such a motion. The last Report of the Public Accounts Committee which was discussed in the Assembly on 31st October, 1946 related to the accounts for 1943-44. The motion for its consideration was moved by the then Finance Member, Mr. Liaquat Ali Khan** and while replying to the debate, the Finance Member also moved for the regularisation of excess grants for the year 1943-44.

The Pre-Independence Public Accounts Committee, evidently, regarded it useful, that an opportunity should be provided for a regular discussion of its Reports in the Assembly. This was because, its members felt that such a discussion would have an educative value for the members of the Assembly, as well as for the general public. Moreover, it was regarded as one of the ways to bring pressure on the Government to implement the recommendations of the Committee.

* LA Debate July 7, 1930. Page 25.

** Later became the Prime Minister of Pakistan.

APPRECIATION

Although Morris Jones held that "the Indian Public Accounts Committee was, only in a very qualified sense, a Committee of the Legislature", Shri G.S.Rau**, who had considerable experience in helping the Committee - both in the Province and later in the Centre, observed that it had set up noble traditions of useful service and within the limitations placed on it by the Constitution, it rendered yeoman service. About the quality of its recommendations, there can be no greater testimonial than the one given by Sir George Schuster, while speaking in the Legislative Assembly on the 7th July 1930, when he stated that 'the work of the PAC is of the greatest importance and that their annual report deserve the careful study of every Member of this Assembly". It was widely recognised that it was in no less measure, due to the high calibre of some of its elected members like S/Shri S. Satyamurti, K.C. Neogi and B. Das* and the emotional involvement of Shri V.J. Patel, the president of the Legislative Assembly towards the Committee's work. The elected members - be they of Indian National Congress, Muslim League or Independents - were known for their independence, integrity, and hard work in the face of heavy odds and made common cause in taking a principled and determined stand, when irregularities, abuses, extravagance, wasteful expenditure etc. came to light. The Auditors General, all Englishmen imbibed in the Gladstonian traditions, did a great deal to help the Committee's work, almost in the manner in which, their counterparts in U.K. with greater autonomy and freedom performed. Equally recognised and appreciated were the responsiveness and constructive attitude of the distinguished Finance Members, mostly Englishmen born and bred in the liberal traditions of parliamentary control in their mother country, who were instrumental in implementing the recommendations of the Committee.

The Committee strove to reach the ideals set by Select Committee of Public Accounts in England. Although a responsible form of Government was not established under the Montford Reforms, the Committee began to assert itself as a representative organ of the public opinion. Sir Malcolm Hailey's oft-remembered saying that the Government of India, after the Montford Reforms, 'became responsive, if not responsible, to public opinion' and that its action "became indicative, if not reflective, of the popular view point", in a way reflected the performance of the PAC and the influence exercised by it on the Government. The successive Committees "established important principles and developed conventions which survive, even to this day, as

** A member of IA & AS who served as Deputy Auditor General of India.
* Later became the chairman of PAC when it became a Parliamentary Committee.

mile-stones on the road to the development of parliamentary control over public expenditure." The influence exercised by the Pre-Independence Committee was aptly summed up by Shri A.K. Chanda. "From its very inception, the Central Public Accounts Committee became a major force in the legislative control of public expenditure ...., it exercised enormous influence in bringing pressure to bear upon Government to enforce economy in the expenditure of public moneys."

NEW PAC

Although India became independent in 1947, the constitutional status and structure of the Public Accounts Committee remained the same till the inauguration of the Constitution on the 26th January, 1950. The Finance Minister continued to be its Chairman as before and the secretarial assistance was provided by the Finance Department, as hitherto, and its programme of work continued to be chalked out by that Department with the guidance of the Finance Minister. This "restricted somewhat the free expression of views and criticism of the Executive to which the Chairman of the Committee belonged." All the same, it was now a Committee of Parliament, to whom the Government was responsible. The members of the Committee (excepting the Chairman) were wholly elected and the Committee acquired complete control over the Defence Expenditure, as it became a voted item. The Public Accounts Committee on the accounts for 1945-46, at its sitting held on the 18th November 1948, decided that the Appropriation Accounts of the Defence Services and the Audit Report thereon should in future be considered and dealt with by the Committee as a whole, instead of by a sub-committee, as hitherto. The Constitutent Assembly (Legislative) Rules to the Provisional Parliament made certain changes in 1950 in the Constitution of the PAC to make it more effective. The membership of the Committee was increased to give adequate representation to various parties and groups in the House and a non-official was appointed by the Speaker as Chairman of the Committee, which made it a full-fledged Parliamentary Committee under the control of the Speaker. The secretarial functions were transferred to Parliament. The Public Accounts Committee became a Parliamentary Committee in the true sense of the term. Naturally, the Chairman of the new Committee felt that the change "has enabled the Committee to function in a freer atmosphere and to offer its criticism in an unrestricted manner." Shri G.V. Mavalankar, the first Speaker after Independence, in his inaugural address at the first meeting of the Public Accounts Committee on 10th

April, 1950 observed:* "The consciousness that there is some one who will scrutinise what has been done is a great check on the slackness, negligence or absolutism of the Executive. The examination (of accounts and witnesses), if it is properly carried out, leads to general efficiency of the administration. The examination by the Committee may also be useful as a guide for both future estimates and future policies." Shri A.K. Chanda observed "Public Accounts Committee can influence a good deal even the running administration as we always profit by past experience." He also observed that "after all, whatever the quality and quantum of expert knowledge, it has to be tested by the service it renders to the common consumer and therefore the consumer's or the layman's ideas in this respect have to be taken into consideration. Members of Parliament will better understand the intention and the mind of Parliament than the Comptroller and Auditor General and they can better exercise their discretion and judgement. We are divided, opposed, so long as we discuss a matter and so long as finality is not reached. The moment finality is reached it should be the effort of everyone to support that. You are sitting in the Committee to go by what the Parliament had laid down. The direct corollary is that there must not be any party politics so far as examination of the accounts is concerned. Even in cases, where the Committee finds that money has not been properly spent, or proper sanction has not been obtained, or that the interpretation put by the executive officers or the Audit Department is wrong, we have to see their point of view and unless one is convinced by proof, not by mere suspicion, that there is something wrong somewhere in the sense that there is some misappropriation or mishandling of the money, our approach has always to be one of sympathy and one of give and take."

REPRESENTATION TO RAJYA SABHA

The Prime Minister, Shri Jawaharlal Nehru, moved the original motion on May 13, 1953, in the House of the People (now Lok Sabha) seeking the approval of the House to the 'association' of seven members of the Council of States (now Rajya Sabha) with the Public Accounts Committee, which raised a prolonged debate. Some members apprehended that it constituted an encroachment on the exclusive jurisdiction vested in the House of the People with regard to voting of supply. The Prime Minister, in reply, stated that such apprehensions were ground-less, as the functions of the Public Accounts Committee

* Evolution and growth of PAC in India prior to indepedence (1921—1947) prepared by Library Reference and Information Service (Reference Wing) Lok Sabha Secretariat.

were limited to a scrutiny of public expenditure. He added that under Article 151 of the Constitution, the Reports of the CAG relating to public accounts were to be laid before each House of Parliament. When this was done, it was within the competence of the Council of States, in exactly the same manner as for the House of the People, to appoint a Committee to go through the Accounts and Audit Reports and to authorise this Committee to take evidence of officials as well as non-officials, as if two Committees were functioning in the same field, more or less simultaneously. When the motion recommending to Rajya Sabha to nominate seven members to associate with the Public Accounts Committee was moved in Lok Sabha, the Speaker, Shri G.V. Mavalankar, clarified that "PAC is not a Joint Committee. It is a Committee of the House of the People (Lok Sabha) under the control of the Speaker of the House of the people and not under the control of the Chairman of the Council of States (Rajya Sabha) so far as their (members) functioning in the Public Accounts Committee is concerned. That is the only difference". He pleaded for a spirit of cooperation between the two Houses. Ultimately, the motion was approved by the House on 10th May, 1954.

The Committee consisted of 15 members from Lok Sabha who were elected by the House every year from amongst its Members according to the principle of proportional representation by means of a single transferable vote. Since 1954-55, seven members of Rajya Sabha have been associated with the Public Accounts Committee and it was considered that its members were equally interested in the efficient and economic administration of the country.

NEW CONVENTION

The Chairman of the Committee was appointed by the Speaker from amongst the members of the Committee and his term of office was one year, as that of the Committee. Upto the end of the Third Lok Sabha, the Chairman of the Committee was chosen from the majority party in Parliament. Suggestions were made to the Speaker by some Members for the appointment of the Chairman from amongst the Members of the Opposition and the Speaker observed in the House, that he would consider it when an "Opposition Party" was formed. The Fourth General Elections held in 1967 brought about some significant changes in the relative strength of the parties returned to Lok Sabha. The demand for the appointment of a leader from the opposition to head one of the Financial Committees, which had been voiced earlier, gained greater urgency in the changed circumstances. The Speaker, Dr. Sanjiva Reddy, appointed for the first time a Member of the Opposition, Shri M.R.

Masani, as the Chairman of the Public Accounts Committee for 1967-68. Later, during the valedictory address of the Committee, he termed it, as an act of faith, and stated that Shri Masani has more than vindicated his faith with his intellectual calibre, broad sweep, sense of dedication and restraint and had lent a new stature to the Committee, earning for it the respect and approbation of all those, who appeared before it, and was able to carry his colleagues in the Committee who were given full sense of participation in the Committee's work. The practice was continued by successor Speaker, Dr. G.S. Dhillon, who observed that the record of working of the Public Accounts Committee during the 4th Lok Sabha has proved that the convention of appointing the Chairman from one of the Opposition was fully justified, which has been preserved since then.

SHRI B. DAS' CONTRIBUTION

Shri B. Das, the first Chairman of the PAC constituted after the Constitution came into force, continued as Chairman for four terms (1950-51, 1951-52, 1952-53 and 1953-54) and had set many new precedents and achieved a good deal during his tenure.

A statement of expenses of PAC for 1950-1951 and 1951-1952 was published in the Financial Committee's 'Reviews' by the Lok Sabha Secretariat, which was discontinued later. In an open democratic system, there should be no secrecy in such matters and more so concerning the expenditure of a Committee, which is the main instrument to enforce public accountability, and the expenditure of the Financial Committee should be disclosed along with their performance every year.

PAC under the Chairmanship of Shri B. Das set precedents and conventions, of far reaching importance for the future. The CAG apprised the Committee at the meeting held on 22nd May, 1951 the latest position with regard to the compilation of the Appropriation Accounts for the year 1948-49 and Audit Reports thereon. The Appropriation Accounts (Civil), 1948-49, the Appropriation Accounts, Posts and Telegraphs, 1948-49, and Audit Report, 1950 were presented to the Parliament on 8th June, 1951; Commercial appendix of the Appropriation Accounts (Civil), 1948-49 and Audit Report, 1950 on 9th June, 1951; the Appropriation Accounts of the Defence Services for the years, 1948-49, Audit Report thereon and the Commercial Appendix, Appropriation Accounts of Railways in India, 1948-49, Part I - Review, Part II - Detailed Appropriation Accounts and the Railway Audit Report, 1950, Balance Sheet of Railway Colliery for 1948-49, capital statement, Balance Sheet and Appropriation Accounts of the Indian Government Railways, 1948-49 on 9th August 1951. The Committee discussed the delay in the presentation to the Parliament of the

Appropriation Accounts, and the remedial measure to be taken to avoid such delays in future, and suggested that some measure should be explored by the CAG to ensure expeditious compilation of the Appropriation Accounts, which were in arrears so that the Committee could consider the irregularities discussed in the Audit Reports as early as possible, as it was apprehended that delay in considering the Audit Report generally let the delinquent officers to escape any punishment. The CAG informed the Committee in their meeting held on the 26th July, 1952 that he would examine the feasibility of incorporating in preliminary reports, self-contained paras involving grave irregularities and misappropriation etc. which had no direct reference to the accounts themselves, which could be considered by the Committee without waiting for the final reports, and the Committee agreed to the suggestion to present the Audit Report in parts. The Committee considered the question of delay in the presentation of Appropriation Accounts and the Audit Reports thereon and consequent arrears and desired that their presentation should be expedited, as abnormal delay in their consideration by the Committee was likely to defeat the purpose of audit and rendered its efforts futile, especially in regard to cases involving serious irregularities, defalcation, and misappropriation etc. It was decided that preliminary Reports dealing with such cases should be presented in advance of the final reports to enable the Committee to proceed with the examination thereof; this practice was to continue till the arrear was wiped out.

NARAHARI RAO'S EXPOSITION ON PARAS

The procedure followed for the preparation and submission of Audit Reports to Parliament was explained by the Comptroller and Auditor General of India during the meeting of the Public Accounts Committee held on the 22nd May, 1951, the relevant extracts of which were enclosed to the First Report of the Public Accounts Committee, 1951-52. In view of its historical, constitutional and topical importance, which continue to be in force even today, despite attempts made by certain Chairmen of PAC and few members of Parliament to have access to the raw material gathered by the IAAD, while conducting audit, and probe into it when so desired, they are reproduced below.

> "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 material 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 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. It would be a miserable document if it were a prejudiced one or untrue to facts. 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".

The enunciation of policy by CAG has helped to avoid not only any misundertstanding of the *modus operandi* adopted by him for finalising his Reports, by the Executive and the Legislature but also prevented from many an MP to probe into CAG's decision on the contents included or not included in the Report. Later CAsG and PACs have stood by the Convention.

The question of extending the scope and function of the Committee regarding the scrutiny of the revenue side of the Accounts of Government with particular reference to Borrowings, Public Debt etc. had been engaging the attention of PAC. But could not be finalised due to delay in the completion of the Finance Accounts on account of non-settlement of balances under various heads of accounts due to partition, which in turn delayed the accounts relating to the subsequent periods. It was examined by the Committee, who decided, in consultation with the Ministry of Finance and the CAG that the former should present the Accounts containing the Receipt and Debt side in a skeleton form as approved by it commencing from the accounts of the year 1951-52.

A CASE LAW

An important procedural point was made by the Public Accounts Committee in its fourth report regarding the import and sale of Japanese cloth, wherein a judicial inquiry to fix the responsibility for handling the transaction, which had resulted in a loss of Rs. 15 lakhs to the Public Exchequer, was suggested. Government laid a statement on the table of the House stating that there was no need for a judicial enquiry, since they were fully convinced that such an enquiry was not likely to bring out any fresh facts. The Speaker directed that a circular should be sent to all the Ministries of the Government of India laying down that in cases where Government were not in a position to implement a recommendation of the Public Accounts Committee or Estimates Committee and Government had reasons to disagree with the recommendations of the Committee, the Ministry concerned should place their views before the Committee, who might, if it thought fit, present a further report to the House after considering the views of the Government in the matter. The Speaker, on the advice of the Chairman of Financial Committees, issued a directive that when the working of any agreement entered into by Government with a private company or any other non-Government body came up for examination by the Public

Accounts Committee/Estimates Committee, the Committee might, if it deemed fit, summon or give an opportunity to the representatives of that private company or body concerned to appear before it and render evidence on any point arising therefrom on which it might like to have further information or the representatives might desire to place before it. It was in the context of Committee's examination of the agreement by the Ministry of Railways with the TELCO for the manufacture and sale of locomotives and locomotive boilors, which came up before the Public Accounts Committee (1955-56)].

Rules and Procedures of the Public Accounts Committee, supplement to the provisions contained in Rules 196 and 197, were issued, which provided for circulation of the Reports and Accounts of the Comptroller and Auditor General laid before the House under the Constitution and the Finance Accounts of the Government of India, *modus operandi* for deciding accounts and reports to be examined by them as also the programme for examination etc., recording of the proceedings of the Committee and evidence of the witnesses and their printing, framing of recommendations and finalisation of its reports.

REGULARISATION OF EXCESS

The question of expeditious regularisation of excess over voted grant and charged appropriation , came up during discussion on regularisation of the excesses relating to the year 1951-52, in the Lok Sabha, when attention was drawn pointedly to the delay and the consensus of opinion in the House was that procedure should be devised for expeditious regularisation of such excesses so as to ensure that time lag between the detection of the excesses and their regularisation by the Parliament was reduced to the minimum. The Public Accounts Committee considered the matter and recommended* that as soon as the excess in accounts relating to a particular year, which just closed came to notice, the CAG in his main Report on the Appropriation Accounts, should, in advance, report these excesses to the Parliament in the prescribed manner. The Committee would proceed to examine with reference to the facts of each case and the circumstances leading to the excesses and present a separate report to the Parliament making its recommendations on the excesses: Thereafter the Government would proceed to take necessary action to have the excesses regularised by the Parliament in the same manner in the following session. In pursuance of this, the Public Accounts Committee presented 21 reports on the excesses disclosed in 1952-53 on 30th November 1956. Subsequently, the

* Para 8 of 213th Report of 13th November, 1956.

Public Accounts Committee presented its 24th Report in 1957 on the excesses discovered in 1953-54 which were reported by the Comptroller and Auditor General of India in his Advance Report to the Parliament.

EXAMINATION OF LOSSES

The Public Accounts Committee 1955-56 decided to take up from the next year onwards the examination of the statement of losses and cash, over payments, irrecoverable claims etc. due to theft, fraud and negligence or other cases brought out in the Appropriation Accounts, Defence Services. A Sub-Committee examined the notes, memorandum etc. relating to Defence Services in respect of a few items.

The Public Accounts Committee (1956-57) considered again the matter of regularisation of the excess over voted grants, charged appropriations by Parliament and decided that as soon as excesses on accounts relating to a year, which had just closed came to notice, the CAG should in advance of his main Report on the Appropriation accounts, report these excesses to Parliament in the prescribed manner and the Committee would examine with reference to the facts of each case the circumstances leading to the excesses and present a separate report to Parliament making its recommendation on these excesses so as to enable Government to take necessary action to have the excesses regularised by Parliament in the same or the following session.

A TRIBUTE

At the last sitting of the Committee held on 29th June 1956, Shri A.K. Chanda paid a glowing tribute to the working of the Committee "From such studies as I am able to undertake in respect of the Public Accounts Committee elsewhere, I can confidently say that the traditions and conventions which have been established by our Indian Public Accounts Committees are second to no other Committee in the world".

According to Shri A.K. Chanda, the PAC's exhortation that the Auditor General should "scrutinise and criticise improper and wasteful expenditure and indicate, whether a censure is, in his opinion, required", imposed a responsibility, which he had to fulfil with circumspection. These called for the best qualities of equity and fairness in judging a transaction and commenting upon it and he attributed the convention to draw an Auditor General from the rank of the Secretary to the Government to this basic qualification for the office. "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 jibed 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. The Committee in my time conformed fully to the conventions established in U.K. It was mainly concerned with the system of control and its operation rather than with the individuals involved in transactions questioned in audit. There was once in a way a demand from a member or two that original papers with relevant noting should be made available to them. I resisted this demand on two counts. First, it would constitute an encroachment on my functions; it was my responsibility to study the papers and analyse the minutes recorded and then bring to the notice of the Committee only those cases, which in my opinion deserved a mention. Secondly, such a demand would imply indirectly a lack of confidence on my ability to present a case in all its relevant aspects to the Committee. There was general appreciation of my point of view and the Chairman was able to stamp down on such ill-conceived move."

After the Chairmanship of Shri B. Das, there were 22 Chairmen. Shri R.R. Morarka was Chairman for three times (1964-65, 1965-66 and 1966-67), Nine Chairmen held tenures for more than one term and others held for a single year term.

SELECTIVE EXAMINATION

In 1968, the Chairman, Shri M.R. Masani, felt that it was difficult to cover all the paragraphs included in the Audit Report and that a more selective approach to the Audit Reports would be necessary so that the more important paras might receive the due attention of the PAC, which was agreed to by the Committee. Paras were categorised according to their importance by working groups after informal consultation with Audit into three categories, *viz.* 'A' - very important, 'B' - important and 'C' - others. For oral evidences paras were taken up in the order of categories 'A', 'B', and 'C' so that in the event of shortage of time, remarks on the remaining paras, which could not be taken up for discussion, might be obtained in writing duly vetted by Audit. The then Chairman observed that the CAG showed his enthusiasm for selective approach and he was sure that under his able guidance the Audit Report in few years would become more and more selective in treatment so as to focus attention on really important and representative issues, which require Parliament's attention. The adoption of selective approach did not materially affect the coverage of paras examined by the Committee in 1969-70 and 1970-71, since the number of paras in the Audit Reports during the period was manageable. As the number of paras, including reviews and Reports increased - the selective approach expressed itself in more rigorous form resulting in more number of paras being left out for oral examiantion. In respect of Reports for 1975-76, no written replies were obtained even in the cases of B category paras, even though the earlier intention was that written replies duly vetted by Audit would be obtained in respect of all left over paras of 'B' and 'C' categories. In regard to the left over paras, in some reports of the PAC (*e.g.* 79th report - 1972-73 - 5th Lok Sabha) on Railways, a general recommendation that "The Committee have not considered it necessary to make specific recommendations on some of the paras included in the Report of the CAG of India. They nevertheless trust that the Railway Board will take such action as may be necessary in respect of such paras in consultation with Audit" was found incorporated. No such general recommendation was made by the PAC in its Report during 1976-77 or 1977-78.

ACTION TAKEN REPORTS

A statement showing action taken or proposed to be taken on recommendations of the PAC prepared on the basis of data and information collected from the Ministries and the Departments concerned were circulated to the members of the Committee on 2nd July 1951. Thereafter such statements were regularly prepared and circulated to the members of the Committee every year. A sub-Committee to review the action taken by Government on the recommendations made by the PAC was constituted by the Public Accounts Committee on 22nd January 1966, who submitted its report on 24th April, 1966 which also included comments on some selected cases reviewed by the sub-Committee. The PAC of the Fourth Lok Sabha of 1966—68 felt that the action taken notes furnished by Government had not in the past received close attention of the Committee owing to its pre-occupations with the original reports and the Chairman PAC appointed an Action Taken Sub-Committee to examine in detail the action taken notes received from the Ministries and the sub-Committee held a number of sittings and informal discussions and finalised the reports, which were approved by circulation among the members of PAC and issued as PAC Reports. The action taken cell of PAC studied all the notes, statements of action taken by Government on the recommendations of PAC, categorised Government replies, prepared memoranda for consideration of the Action Taken Sub-Committee, drafted the minutes of the sub-Committee, collected further information desired by the sub-Committee, drafted, circulated and presented action taken report drafts. The Action Taken Reports were also vetted by Audit to ensure their accuracy, compliance and completeness of the action taken with reference to the paras in the Audit Report and the recommendations of the Public Accounts Committee. As soon as the Public Accounts Committee was constituted, the sub-Committee for Action Taken Reports was formed and their reports were also finalised alongwith the PAC Reports during the year. Upto March, 1989, 498 Action Taken Reports covering the PAC Reports issued upto 1983-84 had been issued.

ACTION ON UNSELECTED PARAS

The Committee used to make an omnibus recommendation in their reports on some ARs that although the Committee have not been able to examine all the paras, they expected Government to take action on them. Shri Gian Prakash brought to the notice of the Chairman of the Public Accounts Committee (Shri P.V. Narasimha Rao) the declining trend in the number of paras actually discussed by the PAC out of the increasing number of paras included in 1977-78 year's Audit Report on Government of India, which tended to weaken the control of Parliament on receipt and expenditure. The Chairman decided that the Lok Sabha Secretariat should enquire from the Government Departments as to the action taken by them on the Audit paras, which were not selected by the Committee for examination. While examining the Advance Report of the C & AG for the year 1976-77, Union Government (Civil), Report of the C & AG on Railways, P & T, Defence Services, Revenue Receipts, Volume I (Indirect Taxes), Volume II (Direct Taxes), the Public Accounts Committee desired to know the remedial/corrective action initiated by various departments on the remaining paragraphs (*i.e.* those not selected for examination) contained in the Audit Report 1976-77 and information in the prescribed proforma, in respect of each of the remaining paragraphs contained in C & AG Reports (1976-77) (separately for each Report) was called for by the Lok Sabha Secretariat. Integrated Financial Adviser in the each Ministry responsible for examining the Audit Report as a whole and to co-ordinate and watch progress of action in this regard, was also asked to endorse a copy to the Ministry of Finance (Department of Expenditure) Monitoring Cell. The position taken by the Lok Sabha Secretariat was that the Ministries and the Departments of the Government of India were expected to take remedial measures on their own in pursuance of the observations made by the CAG in his reports.

NEW PROCEDURE

Shri Gian Prakash suggested on 26th May, 1978 to the Chairman PAC changes in procedure for processing paras of the Report, which envisaged, *interalia*, preparation of a questionnaire on each audit para by CAG, highlighting key issues for examination and approval by the working group of the PAC for issuing to the Administrative Ministries, whose replies will be considered by the working group, who will be assisted by CAG. Where the working group considered that the replies were not satisfactory, they will recommend more important paras for oral examination of the PAC. In respect of other paras not taken up for oral evidence the PAC will make comments in their report based on the replies to the questionnaire received from the concerned Ministries. One great advantage claimed of the revised procedure was that administrative Ministries will not develop a casual attitude to the paragraphs, as they will be required to explain, through written replies, the lapses pointed out by Audit in respect of all the paragraphs and the PAC would be able to comment on them in their reports, which will enable them to cover all the paragraphs incorporated in the Audit Reports and thereby strengthen their control over Government spending without much extra work. A *sine qua non* for the successful working of the procedure, it was recognised, is that there should be no avoidable delays at the different stages of the preparation and processing of the questionnaire and receiving of replies thereto. The then DAI (Shri Y. Krishan) felt that the inability to examine all the paras included in the Audit Report presented by the CAG to Parliament either orally or on the basis of written replies was a serious matter both for Parliament as well as the Audit Department. If the Central PAC examined only a small number of paras included in the Audit Report, it will progressively abridge control of Parliament over the Executive. The growing practice not to examine all the paras in the Audit Reports, in fact, to examine only a very few of them, has tended to produce an attitude of casualness towards the audit paras, on the part of the Executives. It has produced a feeling among them that after including a comment in the Audit Report, Audit has shut its bolt and if the PAC chose not to examine it, it was the end of the matter. It was a matter of survival for the Department. Although the State PACs have been endeavouring to examine all the paras included in the Reports presented to the State Legislature, though some of them may be in arrears in examination for various reasons, the trend set by the Central PAC was likely to spread to the States .... certain other factors, which inhibited the Central PAC were raising of administrative and other issues, not directly related to the audit paras - sometimes extending to review of the whole organisation - reproduction of the evidence in extenso, while writing the reports of the PAC, and lengthy size of the reports (which could be written like judicial pronouncements). In his view the matter was serious enough to write to the Speaker formally, though he was not optimistic of the outcome. However, CAG felt that the question of erosion of control of Parliament over Executive was a matter for the Parliament to decide and was not inclined to hammer the point too often.

DISCUSSION OF REPORTS

Although the Rules of Procedure and Conduct of Business in Lok Sabha did not preclude raising a discussion on a report of the PAC presented to the House on a motion made in the House, a convention has been established that specific approval of Parliament should not be sought to the recommendations contained in the reports of the PAC. A specific issue in an Action Taken Report on which there was a divergence of opinion between the Committee and the Government was discussed in the House on a motion made under Rule 342 of the Rules of Procedure of Lok Sabha. The convention was based on the premise that the recommendations contained in the reports of the PAC in which all parties and groups were generally represented, should be implemented by Government, as if they were the recommendations of the House itself and any discussion in the House of the original report presented by the PAC might lead to avoidable controversy and even split the members on party lines and prove counter-productive. The PACs have built up a fine tradition of judging all issues objectively and on intrinsic merit after a free and frank discussion and arrived at a consensus on various issues, which was reflected in their reports, which had no minutes of dissent. The reports dealt with matters of technical nature and the conclusions therein were arrived at after weighing the pros and cons of each case and a general discussion on the reports of the Committee on the floor of the House might not focus attention on any specific point and may even result in the recommendations not being viewed in their proper perspective. Government was required to furnish to these Committees, statements showing the action taken on the recommendations made in their reports and the Committees considered these replies and presented further reports to the House setting forth their comments. If the House discussed the reports of the Committees in advance of their having been examined by Government, it was likely that the procedure of scrutiny of action taken statements will become redundant because it will mean that the matter has been concluded after the discussion has taken place.

When the question of discussing in the House the reports of the Estimates Committee and the action taken thereon by Government was raised by a Member, the Secretary, Lok Sabha in 1954, explained that "The reports of these two Committees are highly technical and cover many subjects. A discussion on the whole report will be very general and the attention may not be focussed on any one point. It would, perhaps, be better to adhere to the existing convention of not raising discussion on the reports of the Committees in the House, unless there is a serious disagreement between the Committees and the Government or the matter is so fundamentally important that it ought to be discussed in the House. In that case it would be better to give a notice on a definite matter so that the attention of the House may be focussed on that point."

On 22nd August 1966, a member, Shri S.N. Dwivedy, moved in Lok Sabha a motion to consider the statement made on the 18th May 1966, in the House by the Minister of Food, Agriculture, Community Development and Cooperation relating to Para 4.128 of the Fiftieth Report of the Public Accounts Committee, presented to the House on 5th August, 1966 and the Speaker allowed the discussion, as it pertained to a specific issue. The areas of divergence between the Public Accounts Committee and the Government as revealed, among others (a) in the Fifth Report of PAC on action taken by the Government on the recommendations of the Committee contained in their Sixty-Fourth Report (3rd L.S.) in regard to the lapses connected with the failure to recover surcharge from M/S Aminchand Pyarelal. (b) in the Fourth Report of PAC on action taken by Government on the recommendations of the Committee contained in their Sixty-Fourth Report (3rd L.S.) regarding purchase of Defective Tyres by the Army, were discussed on 28th November, 1967 (Fourth Lok Sabha). The working group on Procedure of the Public Accounts Committee (1977-78) in January, 1978 considered the question, who felt that a discussion could lead to a sort of confrontation between the Committee and the Government in which the House was called upon to act as appellate body, and no final decision was taken by the Working Group. The Working Group on Procedure of the PAC (1978-79) again considered this issue on 12 July, 1978 in the context of past experience and the practice followed in the House of Commons, U.K. was also studied. The discussion on the PAC Reports in the House of Commons, U.K. was only of a general nature and did not pinpoint the various issues and matters discussed in the reports of the PAC. The reports of the PAC were produced after an objective examination of the subject and endeavoured to project a non-partisan approach to the issues and if the reports were discussed in the House, any member could, in the course of the debate, take a stand contrary to the observations and recommendations of the Committee, which would have the effect of detracting from the consideration and respect now enjoyed by the observations and recommendations of the Committee. Such a procedure could also invite unhealthy lobbying by parties adversely affected by the recommendations of the Committee. Besides, there was always a possibility of the Government taking on certain issues a contrary stand on the floor of the House and having it supported by members of the party in power by issue of whips. The convention of not discussing the reports of PAC in the House was, therefore, not an unmixed blessing. It was felt that the discussion on the reports of the PAC in the House would be useful only if there was a general agreement between political parties in the House that the whip would not be issued to members desiring them to take a particular stand-point on matters dealt with in the report and also that the motion was not formally put to vote expressing approval or disapproval in the House. Until these two precautions were ensured, it might not be desirable to have the reports of the Committee discussed in the House. It transpired that the main purpose of discussion of reports of the PAC in the House was that the reports should receive wider publicity. The consensus was that in view of the dangers involved in bringing the report before the House for discussion, the purpose would be served if procedures were devised to achieve adequate publicity to the reports of the Committee. Apart from the prevailing system of preparing and issuing press releases to the press on the day the report of the PAC was presented to the House, in the case of selected important reports, the Chairman could meet the press and explain to them the broad thrust of the report of the Committee. Another suggestion made was that members could during debates in the House increasingly draw upon the reports of the PAC, which contained a rich material on the functioning of almost every Ministry, which would focus public attention on the reports of the Committee. These Conventions were, however, broken during 1989, when discussion on CAG's Report on Defence Services was sought to be discussed immediately after its presentation, which is discussed in the chapter on Defence Audit.

OVERALL PERFORMANCE

The examination of ARs on Union Government by PAC, their reports, recommendations, and action taken on them by Government are dealt with at length in the respective chapters. The PAC, during the first, second and third Lok Sabha, examined almost all the paras of the ARs laid before Parliament. During the tenure of Fourth Lok Sabha, the PAC (1968-69) started examination of selective paras in each AR of the CAG presented during the year and since then, while the number of Reports and paras in them increased, the number of paras examined by the Committee in each Report declined. The Table below shows the turnover of Reports and paras under each category and para examined by PAC during 1947-48 to 1987-88.

Category of Reports	Total No. of Reports	Total No. of paras	Paras examined by PAC	Total No.of PAC Reports	Total recommen-dations	Analysis of Action taken A	B	C	D	Pending ATRs
1. Civil	61	3277	2136	205	7266	3676	1417	720	877	576
2. P&T	36	1189	438	56	1320	576	166	135	187	256
3. Railways	41	1914	630	77	2207	988	419	190	290	320
4. Defence	37	1421	912	61	1821	764	491	185	179	202
5. Revenue Receipts	43	4419	1145	122	3896	2013	522	469	892	-
6. Commer-cial	8	1237	148	2	82	54	19	5	4	-
Total	226	13457	5409	523	16592	8071	3034	1704	2429	1354

A. Accepted by Government B. Not pursued by the Committee
C. Government replies not accepted by the Committee D. Interim Replies.

The overall percentage of paras examined was about 40 only but the percentage dwindled further in each Report. 77% of the Committee's recommendations have been acted upon by Government. 20 per cent of unselected paras were not acted upon. A system for pursuance and disposal of paras not selected for examination introduced only in 1978 was not followed in a regular, uniform and effective manner by all the Ministries/Departments in the Government of India and the follow- up action by the Lok Sabha Secretariat was not as close and effective as in PAC Reports.

In this connection, the views of two Chairmen of PAC with different out-look and political perceptions are worth recalling.

*It is surprising and paradoxical that though more than 90 per cent of the recommendations of the Committee are accepted by the Government without hesitation, yet no vigorous and effective steps are taken to improve the system or to remove the causes contributing to those mistakes or lapses. The result is that year after year the same types of mistakes keep on repeating and the Comptroller & Auditor-General reports on them and the Public Accounts Committee comments on them. This tends to reduce the functioning of the whole machinery to a mere routine formality. To have more effective check and supervision, it is imperative that once the mistakes are pointed out by the Public Accounts Committee, the Executive Government not only take action against the delinquent officers etc. but investigate the root cause and try to eradicate it.

According to Shri M.R. Masani,* a major problem that needed to be dealt with was the time-lag between the spending of public money and the investigation of the P.A.C., who, in turn, reported to Parliament and through Parliament to the people of the country. Unfortunate delay resulted in the Committee having to deal most of the time with matters of past history, which did not always have contemporaneous importance, and too often, the officials examined were not themselves the persons, who had personally handled the case being investigated and were thus not responsible for the Administration at that time. He suggested two ways to mitigate the inevitable time-lag. One was for the Comptroller and Auditor General to consider devising ways and means to reduce the time-lag and the delay in the feedback of information. The other was for the Committee to consider calling for evidence the actual officers, who were responsible for dealing with the cases in question, whenever they

* "The Public Accounts Committee" by Shri R.R. Morarka, M.P., Chairman, Public Accounts Committee - Third Lok Sabha - Souvenir.
* Chairman Public Accounts Committee (1967-69)

are available, along with their successors, who would now be in office. It was a pity that though more than 90 per cent of the recommendations of the P.A.C. were accepted by Government, yet the vigorous and effective steps needed to be taken to remove the causes contributing to the mistakes or lapses have not been forthcoming. The result is that, year after, year, the same type of lapses keep on happening. The Comptroller and Auditor General keeps on reporting on them and the P.A.C. keeps on commenting on them. There is a grave danger of this tendency reducing the whole machinery of scrutiny and accountability to a mere routine formality. A more basic acceptance of the Committee's criticism and suggestions by Government, devising appropriate machinery and a more active consideration and evaluation of the material forming part of the Reports of the PAC by Honourable Members of Parliament appear to be called for.

There are no perfect solutions to the intricate and developing problems of public accountability. To the extent, however, that the P.A.C. and the other Financial Committees of Parliament, which are important parts of the mechanism, are able to do their work effectively, to that extent these problems and difficulties can be reduced to manageable proportions."

SUMMING UP

The raison d'etre for timely presentation of Reports by CAG and their utility and effectiveness to enforce accountability are open to doubt. In effect, the system has resulted in enforcing only partial accountability, which cannot obviously be the intention of Parliament and the PAC. Ways and means have to be devised to obtain maximum utilisation of these Reports to enforce total accountability in minimum time span, as repeatedly emphasised by several distinguished Chairmen of the PACs in the past. The fact that the number of CAG's Reports has increased cannot provide an alibi for not examining them fully. In many respects, Indian Parliament and the Committee Systems and Procedures had followed the United Kingdom model subject to national requirements. The Committee on Accounts in the House of Commons examines all the reports of the CAG during the year. It should not be difficult to devise a system and procedure of examination and reporting, by which bulk of the Reports, and their contents are subjected to examination and reporting by the Committee. If a Single Committee finds it difficult to examine all Reports - as shown by the performance of the PACs so far - formation of more Committees or sub-Committees could be considered, as recommended by the PAC in the past to obtain increased coverage of Audit Reports laid before Parliament. Alternatively, the feasibility of extending the system of formation of Subjects Committee, introduced at the fag end of eighth Lok Sabha to major spending Ministries, could be considered, who could be asked to look into the Reports or paras relating to the Ministry contained in them. These Committees, will have to be endowed with the same privilege and powers as PAC so as to facilitate examination, and reporting, and follow up action on their recommendations, in the same manner, as performed by PAC in respect of selected paras in each year's Report. As the duty and responsibility of CAG of India ends with the presentation of Reports under the Constitution and the Act there under, it is only Parliament and its Committees, who can make the Executive act on them and so far as it is not achieved fully, the object and purpose of free and independent audit will not be served adequately.

CONFERENCES OF CHAIRMEN

The first Conference of Chairmen Public Accounts Committee was inaugurated on the 30th April 1955 by Shri G.V. Mavalankar, Speaker of the Lok Sabha and was attended by the Chairmen of the Public Accounts Committees of 19 State Legislatures, the Estimates Committee and the Public Accounts Committee of the Lok Sabha. The Conference was addressed by the CAG, Shri A.K. Chanda. The Conference discussed for five days 12 items on the prepared agenda, covering the composition and scope and the implementation of the recommendations of the Committee by Government. The Conference was in the nature of get-together for exchange of ideas on common problems facing the Committees - both at the Centre and States and offered a unique opportunity to the various participants to have a glimpse of the working of the Public Accounts Committees in the Lok Sabha and the State Legislatures to exchange notes on conventions, practices and problems faced by them and the case laws on the subject. The Conference was preceded by the Conference of Secretaries, Public Accounts Committee on the previous day under the Chairmanship of Secretary, Lok Sabha (Shri M.N. Kaul) and was attended by the delegations from 19 States and various items of common interest likely to be discussed in the Conference were debated upon. Since then, Conferences were held regularly at least once during the tenure of each Lok Sabha and upto 1986, seven Conferences had been held. These discussions covered *inter alia*, scope and functions of PAC, review of action taken on its recommendations, rights and privileges of Members of the PAC to information and documents, tenure of membership of members of the PAC, coordination with the Estimates Committee, uniformity of procedure followed by the Central and State PACs, coordination, scope and working of the Committees, new service and new instrument of service, audit of receipts, audit of cooperative bodies, procedure for evidence and production of documents, implementation of the Committee's recommendations, Chairmen of the Committee, staffing pattern, examination of autonomous bodies, accessibility to media of the proceedings of the Committees, press coverage of the Reports of PAC, check of excess expenditure, etc. Certain topics were discussed repeatedly because of their topical importance. The question of discussion of PAC reports in the House was discussed in the Conference held in April 1966 and the consensus was that the convention, which prevailed at the Centre as also in most of the States of not discussing the reports of the Public Accounts Committee may continue to be followed. The Chairman of the Conference, Shri R.R. Morarka, observed "If the presentation of a report to House is considered to be the adoption of the report by the House, then Government would have no option to implement or not to implement the recommendations. Once it becomes a report adopted by the House it will become mandatory for the Government to implement each and every recommendation. So, the mere placing of the report on the Table of the House will not mean that the report is adopted by the House. On the same ground I think . would be unwise for us to make a motion before the House that the report be adopted, because it may not be possible for the Government at that time to accede to or to accept all our recommendations. And if the Government cannot accept them, the Government is bound to oppose the adoption of the report. And when they oppose the adoption of the report, the ruling party always has a majority, and by the whip the report would be thrown out. You just consider the consequences of our Committee's effectiveness when our reports get thrown out like that. I therefore think that the convention which prevails in the majority of the States, with the exception of one or two, should be followed. And those States must carefully consider whether it is worthwhile for them to continue with the convention which they have."

The question was again discussed in depth at the Conference held in New Delhi in December 1978 and the consensus was that there should be no voting, when a discussion took place in the House; the discussion should not be on the Report but on the Action Taken Report; the discussion should be pin-pointed and it should be centred on the recommendation rather than what has gone without the recommendations; and the discussion can only be regulated properly and channelled but it cannot be shut out altogether. The Chairman of the

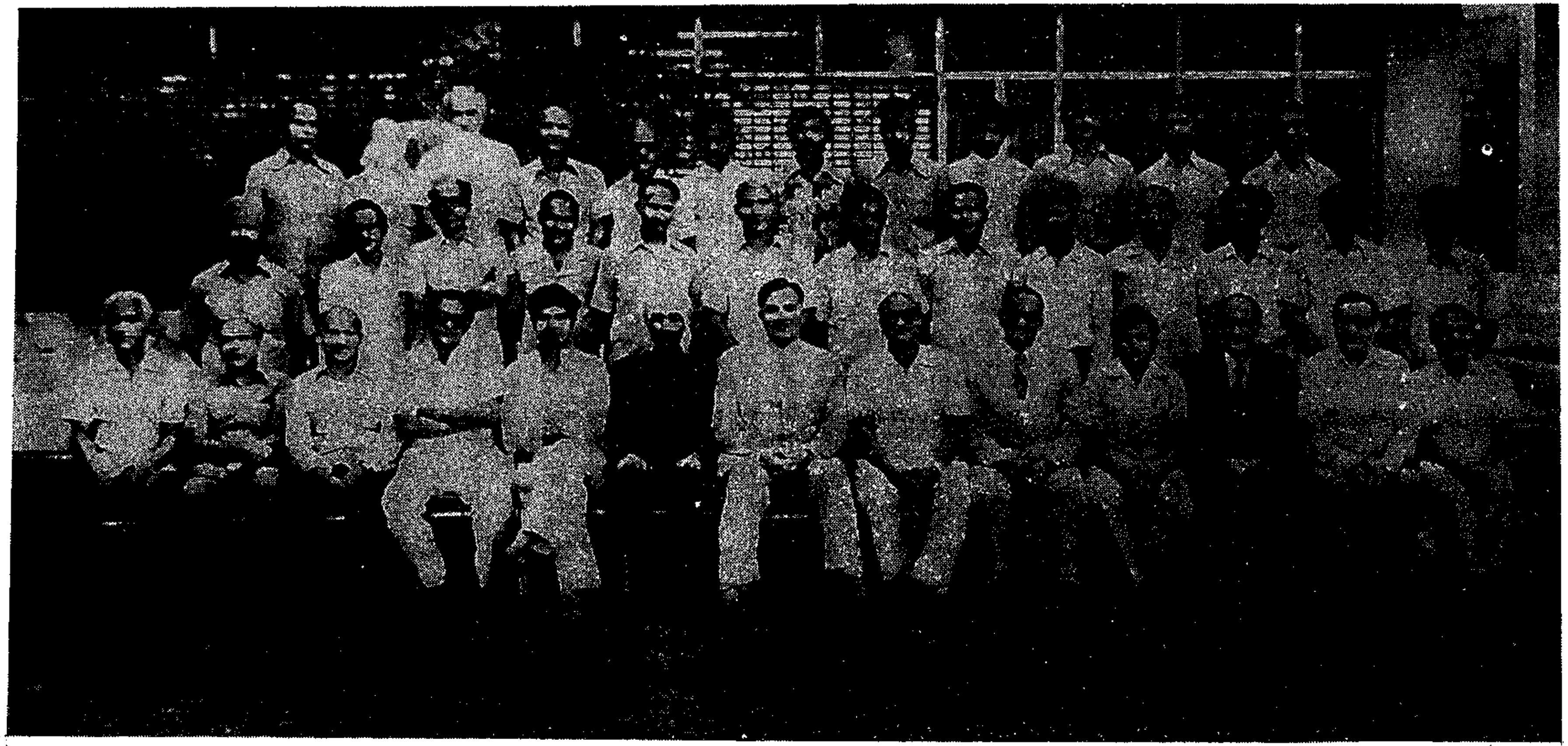


Fig. 28.1: Conference of PAC Chairmen 1981-82 with the speaker of Lok Sabha, and C.A.G. and Secretary General of Lok Sabha.

Sitting on Chairs (L to R): Sarvashri (1) N. Sivasubramaniam, Director of Receipt Audit II, (2) R.C. Suri, Addl. Dy. C & AG, (3) H.G. Paranjpe, Jt. Secy. L.S. Sectt., (4) Patit Paban Pradhan, M.P., (5) Jagdish Tytler, M.P., (6) Avtar Singh Rikhi, Secy. L.S. Sectt., (7) Dr. Balram Jhakar, Speaker Lok Sabha, (8) Satish Agarwal, Chairman, (9) Gian Praksh, C & AG, (10) Ahmed Mohd. Patel, M.P., (11) A.R. Shirali, Dy. C & AG, (12) M.M. Mehta, Director of Audit Central Revenues, (13) G.N. Pathak, Dir. of Audit (Defence Services).

Standing on Group (L to R): Sarvashri (1) Lachhman Singh, Jt. Dir. (P & T), Abhinash Gupta, (3) R.S. Gupta, Jt. Dir. (Defence), (4) B.D. Malaviya (5) R.S. Gupta, (6) K.L. Malhotra, PA to Chairman, (7) K.K. Sharma, SFCO, (8) D.C. Pande, CFCO, (9) Balbir Singh, PA to JS, (10) N.P. Jain, FCO, (11) G.S. Bhasin FCO, (12) Ram Kishore, SFCO, (13) N.C. Roychoudhuri, Jt. Dir. (Receipt Audit).

Standing on Bench (L to R): Sarvashri (1) R. Balasubramaniam, (2) K.H. Chhaya, Jt. Dir. (Railways), (3) S.R. Mukherji, Dir. of Audit, C.W. & Misc., (4) G.R. Sood, Jt. Dir. (Reports), (5) K.C. Rasitogi, SFCO, (6) Dharam Pal, (7) Jeevan Lal, (8) R.K. Sharma, PA to CFCO, (9) Om Prakash, (10) N.K. Gupta, (11) A.K. Sankar Narayanan, (12) D.K. Tewari, PA to SFCO.

Conference apprehended that the attempt to keep the discussion on the reports of PAC permanently out of the House was a losing game, which might not succeed for long. The Speaker would not be able to shut it out and can only regulate any motion for discussion properly on the basis of conventions, his vast experience, influence on members and so on.

SEVENTH CONFERENCE

The 7th Conference was held on 9th and 10th September 1986 which was attended by 24 Chairmen of the Public Accounts Committee of State Legislatures and was inaugurated by the Prime Minister himself.

While inaugurating the Conference, the Prime Minister observed that the PAC to be effective in a long term perspective should go into the root of the wrong things and study in very great depth, as to why these problems were caused, and get to the procedures behind the problems to be tackled, so as to avoid their occurrence. The Finance Minister, Shri V.P. Singh expressed his unhappiness about the late availability of accounts of the Government to the Legislature, generally at the close of the next financial year, which amounted to asking the Legislature to vote funds for a second year without telling them about what has happened to the funds voted by them in the previous year. There are mandatory dates by which audited accounts have to be presented even in companies. Audit report should be presented in the winter session of the Parliament and the PAC report thereon available to Parliament in the budget session. He urged the Chairmen of the PAC to prevail upon their State Governments to take over accounts in right earnest and complete it in the next three years. He also cautioned the need to ensure safety of Parliamentary democracy by continuously adapting it to changing circumstances and make it to rise to the growing demands on it. Control over the purse is the touchstone of Parliamentary form of Government, and the PACs in India are the principal instruments of this control, and the way they re-fashioned their working to answer the changing needs would help in shaping the future of Parliamentary democracy.

While addressing the Conference, the CAG, Shri T.N. Chaturvedi, drew their attention to the major constraints in presenting Audit Reports, namely, inadequate and delayed response to Audit comments, whose utility and effectiveness depended on timeliness and expedition in corrective action, time taken for printing reports, and in some states in translating them in regional languages and printing them, heavy arrears in examination of the paras in the Audit Reports by the PAC and consequent postponement of examination of current reports involving the current administration, delay in regularisation of excesses and inadequate follow-up action on the recommendations of PAC. He has suggested to authorities certain measures to get over these constraints, namely, appointment of Audit Committees for examining the observations of Audit without delay to facilitate purposeful discussion of the residue by the State Public Accounts Committee, prompt translation into regional languages and simultaneous printing of reports, assumption of responsibility to translate and print reports by the State Governments, after he had presented five copies of cyclostyled or photostat copies to the Government in accordance with the constitutional conventions and proprieties, speedy examination and prompt submission of the reports by the PAC and effective follow-up action on their recommendations. The following observations reflected the sorry state of affairs "I may state for clarification that our audit is based on the material which the Departments make available and we repeatedly try to verify it. Our provisional findings are sent for scrutiny and observation by the Departments. We are not there to condemn any programme but to hold the mirror to the best of our ability and intentions, and present a fair and correct picture to the Departments for such corrective action as may be needed to make the programme a success. There is no question of any bias or pressure of vested interests, because in some of the comments, if something comes, some paras might have been used by any writer or somebody to advocate a particular view point. We are not there just to reflect any bias or anything like that. It is only the facts. The unfortunate thing is that in the first instance the audit comments do not receive timely and adequate attention at knowledgeable and higher decision - making levels within the Department. Only when the final Audit Report is presented to the Legislature and as there is the possibility of the Public Accounts Committee taking up the matter, the Departments take up a defensive posture and tend to look upon and project Audit, as if it has an adversary relationship with Administration. This is unfortunate as we share the commonality of objective, *viz*., better administration and efficient management of our programmes as well as utilisation of public money for public good in the context of democratic accountability. This requires imaginative approach and an element of intellectual integrity."

A Sub-Committee was constituted by the Conference consisting of the Chairman of the PAC of the Lok Sabha and Chairman of the Conference, Shri E. Ayyapu Reddy, and 8 other members*. The Sub-

* Chairmen of PACs Shri Kudupudi Prabhakara Rao (A.P.), Shri Abdul Muqtadir Chowdhury (Assam) Shri M. Veerappa Moily (Karnataka), Smt. K.R. Gouri (Kerala), Shri Bhola Singh (Bihar), Shri Kailash Joshi (M.P.), Shri P.K. Patil (Maharashtra) and Shri R.K. Gupta (U.P.)

Fig. 28.2: The participants of the conference of PAC Chairmen, 1986-87 with the speaker of Lok Sabha, CAG and the Secretary General.

1st Row Sitting (L to R): Sarvashri S. Singaravadivel, M.P., Rajit Singh Gaekwad, M.P., J. Chokka Rao, M.P., M.S. Gurupadaswamy, M.P., Nirmal Chatterjee, M.P., Girdhari Lal Vyas, M.P., Dr. Subhash C. Kashyap, Secy. General, Lok Sabha, Dr. Bal Ram Jakhar, Speaker, Lok Sabha, E. Ayyapu Reddy, Chairman, PAC, T.N. Chaturvedi, C & AG of India, Rameshwar Neekhra, M.P., Shri G. Devaraya Naik, M.P., Smt. Jayanti Patnaik, M.P., Smt. Prabhawati Gupta, M.P., Shri H.M. Patel, M.P.

2nd Row Standing (L to R): Sarvashri Krishnapal Singh, SFCO, Ashok Sarin, FCO, P. Sreedharan FCO, Kavi Raj, Manohar Singh, K.H. Chhaya, Jt. Secy., K.L. Narang, FCO, Simon Tigga, M.P., M. Parthasarathy, Adai, D.K. Chakravorti, ADAI, R.S. Gupta, Director, P.K. Bandopadhyaya,, Director, A.K. Jain, Director, V.S. Bhardwaj, Director, M.M. Mathur, Director.

3rd Row Standing (L to R): Sarvashri S.S. Mann, J.D., S.M. Parashar, S.S. Malhi, FCO, Hari Singh, R. Kesvan, R.K. Chatterjee, FCO, Rajeev Sharma, FCA, S.M. Mehta, SFCO, S.K. Sharma, FCO, T.D. Dhingra, FCO, Ram Singh, Sr. PA., J.R. Gulati, P.S., Harmohan Singh, P.S., S.K.F. Kuzur, Joint Director.

4th Row Standing (L to R): Sarvashri S.M. Patankar, Director, K. Krishnan, J.d., A.K. Sitaram, J.D.

Committee was assisted by the CAG and it submitted a Report - Accountability in Administration - on 27th February, 1987 to the Prime Minister. The most important point stressed by the Sub-committee, which consisted of members of various political parties, was to bring about administrative reform in terms of the last and the most effective item of the 20 Point Programme, namely a responsive Administration/ Government. The Committee observed, *inter alia*, that mutual confidence, trust and frankness on the part of Administration in placing the total data before Audit must be ensured at the initial stage itself by adopting a positive attitude. That Audit was only interested in finding faults with the departmental functioning was a total misconception, which should be eliminated. An effective and efficient internal audit should be set up directly under the Finance Department for efficient financial management without unduly interfering with the initiative and freedom of the department to adapt itself to changing circumstances and also to evaluate performance continuously. The delayed reaction on the part of department was responsible for the constant and repeated failure to enforce accountability and helped the concerned officials and offices get away from being made answerable. Instead of trying to defend every audit observation, Department should treat them as aid to Administration and promptly initiate necessary corrective action before the matter came up for scrutiny by the PAC and the habit of waiting for the PAC reaction before initiating action should be eradicated. It was of utmost importance that the Departments must not only react promptly to the Audit paras but also complete their entire investigation in respect of allegations in the Audit paras at least within three months from the date of publication of the Audit Reports and enforcement of accountability, as envisaged in the 20th of the 20 Point Programme was possible, if only these preliminary steps were taken by the Departmental Heads. Reasons for variations in the voted grant should be furnished promptly and Audit should examine the feasibility of reporting in the Audit Report on the correctness of the explanations at least in the case of the larger and most significant variations offered by the Departments in the Appropriation Accounts of the previous year. The effectiveness of the PAC was diluted on account of the delays and departments should send their action taken notes to all the Audit paras within three months of the presentation of the Audit Reports to Parliament/Legislatures. Necessary decentralisation of authority and responsibility along with accountability was needed. At the Government level the system of review, monitoring and evaluation needed to be strengthened both at the Planning and implementing levels. The quantum of losses, misuse and misappropriation of public funds reported even on 5 per cent audit

4th Row Standing (L to R) : Harmohan Singh, P.S., S.K.P. Kuzur, Joint Director.
Sarvashri S.M. Patankar, Director, K. Krishnan, J.d., A.K. Sitaram, J.D.

checking by the CAG and AGs of States, and the action taken thereon, clearly brought out that the present system of reporting, registering, investigating and prosecuting cases of corruption, bribery, misappropriation, and breach of trust in relation to public funds, was pitifully inadequate and there was need for a special enactment for dealing with delinquent officials.

On the recommendations of the Conference regarding responsiveness to Audit objections, accountability in Administration, and the implementation of the report, Government of India issued an official memorandum on 23rd May, 1989* drawing attention of the Ministry's earlier instructions regarding the procedure for dealing with the objections and system of making available desired records to the Audit and also stressing the essentialities of prompt settlement of Audit objections,** and again impressed on the Ministries/Departments of the Government of India and financial advisers to take appropriate steps to ensure smooth Audit, supply of all relevant information, expeditious settlement of Audit objections and the availability of records desired by the Audit authorities. If mere issue of instructions could deliver the goods, there should have been no problem at all, and what probably the Conference desired was some concrete action, in the spirit of what the Prime Minister mentioned in his inaugural address, to move the Administration at all levels for obtaining prompt disposal of audit comments, to preserve and strengthen the concept of accountability of Administration in Government and the Parliamentary financial control under Indian System. There is many a slip between the cup and the lip in Administration at different levels of bureaucratic hierarchy, which convert pious government decisions into dead letters.

COMPARISON OF THE CAG OF INDIA AND U.K.

As the origin, evolution and development of PAC and its relation with CAG has been patterned on UK model, a comparison between Indian and British system is worthwhile. The CAG of India, being an officer of the Constitution and not of the Parliament, as in U.K., the Finance Minister represents the CAG in the House and is only through him that he can make his submission to the House on any motion on which,

* Government of India, Ministry of Finance, Department of Expenditure OM No. F. 13(2)-E-Coord/88 dated 23-5-1989.

** (i) D.O. letter No. 26/SF/55, dt. 6th January, 1955 from Secretary (Revenue) to all Secretaries. (ii) D.O. letter No. 9/18/57-O&M, dt. 6th July, 1957 from Director, O&M, Cabinet Secretariat to all Secretaries. (iii) Ministry of Finance O.M. No. 35/5/EGI/59, dt. 20th February, 1959 to all Ministries.

the House may desire information from him. When a question was asked of the Speaker, whether he could place on the Table of the House the letters addressed to him by the CAG, (on the reported remarks of the Finance Minister on CAG's note circulated to the members during discussion on general insurance bill) he said that he could not do so because the CAG functioned in relation to the House through the Finance Minister and any letters from the CAG to the Speaker were private letters for his own information and benefit.[@] Both in the U.K. and in India, ARs stood automatically referred to the Committee on Public Accounts, whose functions are laid down by the standing orders of the House of Commons and the Rules of Procedure of the Lok Sabha respectively. Naturally, both the Appropriation Accounts and Audit Reports of the CAG are laid together before the Lok Sabha, as in U.K., except in few years, when Advance Reports were presented by the CAG. This was based on a recommendation of the PAC.

Both in the U.K. and in India, the reports of the CAG are the basis of the investigation of the PAC, who are briefed about the whole year's work of the entire department. A time limit for receipt of replies to the paras proposed by the CAG from the Departments/Ministries has been prescribed by the PAC of Central Assembly as far back as 1943-44. In U.K. no such period was laid down either in the statute or in practice but the response was timely and total. In India response from the Departments/Ministries is rarely received in time and more often paras appeared without response of the Departments and the Ministries of the Government even after the financial and accounting reforms carried in 1976, whereas in the CAG's Reports in U.K. seldom feature a para without replies of the Department or Ministry. The Audit Reports of the Comptroller and Auditor General of India include cases, which have arisen in previous years also but in U.K. the Audit Reports mostly related to the accounts of the year to which the Report related and the previous cases were referred to only, where there was a reference for previous year's reports that they would be carried over to the next year for the reasons stated therein. No fixed date for laying the AA and AR have been laid down in India and they were presented by the CAG, as and when completed during the year. Under the Constitution and the Act, the responsibility of the CAG is completed after the Audit Report is submitted to the President. In UK dates have been fixed in the Act, which have been adhered to by the CAG. In UK, the CAG, with the

---

* Lok Sabha Debate dated 17-3-1960 CC 6434-33. Parliamentaty practices in India by Shri S.L. Shakdher published by Research Publications on Social services

encouragement of Parliament, began to enquire into the wisdom, faithfulness and economy in public expenditure, as early as the 19th Century. The CAG of India has construed his powers in a similar manner and in a modest form prior to independence but more explicity after the Indian Constitution came into force. The PAC has expressed the view that it was the duty of Audit to see that administrative action was not only in conformity with prescribed law, financial rules and procedure but it was also proper and did not result in any extravagance, loss or infructuous expenditure. At times, both in UK and in India, Members have referred to an Audit Report, immediately after it was laid on the Table of the House and before it was considered by the PAC. During the discussion on Demands for Grants relating to the Defence Ministry a question was raised in Lok Sabha whether Members could refer to the Audit Report on the Defence Accounts, which had been laid on the Table of the House that morning. The Speaker ruled that since the Report had been laid on the Table of the House it could be referred to during the debates and the Minister could reply to the points without prejudice to what the PAC might report later after examination by it. The Minister of Defence replied to some points which were raised during the discussion and later laid a full statement on the Table of the House giving the views of the Government on the observations made in the Audit Report. The Speaker observed, "The procedure is that the Audit Report goes before the PAC which examines the papers. As the matter was referred to in advance on the floor of the House, it is just and proper that the Government with respect to whom observations have been made in the Audit Report, must have as early an opportunity to explain its position as possible, lest there should be only one version. So there is nothing objectionable in this." The programme is prepared by the CAG and finalised by the Chairman after discussion with the Members in UK. In India the programme is prepared by the Secretariat of the Committee after the Reports and Accounts have been presented to the House but CAG's office is involved in finalisation of the programme. In UK, before the commencement of each meeting of the PAC, a conference is held in the room of the Chairman of the Committee, when the CAG and the clerk of the Committee are present, who discusses the important points to be raised with the witnesses during examination. In India, the CAG prepares a list of important points arising out of the accounts and his comments thereon and the list marked 'confidential' is circulated to the Chairman and the other Members of the Committee. The Secretariat of the Committee, under the direction of the Chairman, prepares a further list and it is also circulated to the Members of the Committee. A briefing session is also held by the CAG and his officers with the PAC before the formal meeting of the Committee takes place. In UK, the CAG attends the meetings as a witness, when evidence is being taken by the Committee and he does not sit next to the Chairman; but sits, at the other end of the table, opposite to the Treasury officials, and intervenes in the discussion, only when the Chairman asks him to clarify a point or some information is required from him and does not put any question to the witnesses nor make any comments or observations on the evidence given by a witness. In India, the CAG sits on the right hand side of the Chairman and cotinuously holds consultation with the Chairman, as the evidence proceeds, and very frequently asks questions from the departmental witnesses, and also makes comments and observations in the course of such evidence. The CAG is also accompanied by his officers, who also sit alongwith him or behind him and continuously assist him with paper, information, etc. The draft report in India is sent to the CAG in advance for factual verification, and is approved by the PAC, when the CAG or his representative is always present to assist the Committee and their presence is recorded in the minutes of the Committee. In UK, there is no hard and fast rule, although the Committee are free to call upon the CAG and to make use of his help in any way in approving the report. The minutes of the PAC are drafted by the Secretariat of the Committee and approved by the Chairman and form part of the Report of the PAC's proceedings. In UK, on the other hand, the evidence given before the Committee is printed verbatim and presented to the House along with the Report. In UK, it is customary on the retirement of the CAG and on the appointment of his successor to include a special paragraph in the Committee's final report. In India, the Committee includes a paragraph in each of its reports every year expressing its thanks to the CAG and his officers for the valuable assistance rendered by him in the deliberations of the Committee. During the valedictory address of the Committee the Speaker and Chairman also referred to the assistance and guidance, help rendered by CAG in appreciative terms. In UK, periodically an epitome of the reports of the PAC is brought up to date by the CAG and it is customary for the Chairman of the PAC to move in the House for a return containing the epitome of the reports from the Committee and of the Treasury minutes thereon with appendix and index with prior clearance of the Speaker. In India, a similar epitome is brought out by the CAG, and kept in the Library of the PAC and is not laid on the Table of the House. In India, six copies of all papers circulated to the Memebrs of the Committee are usually forwarded to the CAG and the AG. or Director of Audit concerned.

Both in UK and India the respective CAG functions as 'the friend philospher and guide' and 'the moving hand' behind the actions of the Committee. Even after the CAG in UK became an officer of the Parliament, the *de facto* position has not altered. The PACs in state legislatures follow identical procedure and the AG of the state and his office play similar roles in assisting PACs.

LIST OF ABBREVIATIONS

1.	AGs	—	Accountants General
2.	ARs	—	Audit Reports
3.	CAG	—	Comptroller and Auditor General
4.	CAsG	—	Comptroller and Auditors General
5.	DAI	—	Deputy Comptroller and Auditor General
6.	IAAD	—	Indian Audit and Accounts Department
7.	LA	—	Legislative Assembly
8.	LS	—	Lok Sabha
9.	MES	—	Military Engineer Services
10.	MP	—	Member of Parliament
11.	PAC	—	Public Accounts Committee
12.	P & T	—	Posts and Telegraphs
13.	PWD	—	Public Works Department
14.	TELCO	—	Tata Engineering Locomotive Company
15.	UK	—	United Kingdom

SOURCES AND REFERENCES

1. Legislative Assembly Debates
2. Lok Sabha Debates
3. Public Accounts Committee-Golden Jublee Souvenir
4. PAC Reports 1921-22 to 1988-89 in general and reports as under in particular :

   Report of PAC 1921-22
   1923-24
   1924-25
   1926-27
   1935-36
   1944 45
   1945-46

   213th Report of 13th November 1956
5. Evolution and Growth of PAC in India prior to independence (1921-1947)
6. Minutes of Conferences of Chairman, PACs.

29 Committee on Public Undertakings

PARLIAMENTARY CONTROL ON PSUs

Ever since the setting-up of public enterprises controlled and managed by various Ministries of the Government of India, and large scale investment on an increasing scale on public sector undertakings, in the wake of the adoption of Industrial Policy Resolution by the Parliament in 1948, and subsequent emphasis on the need for a planned and rapid development of industries of basic and strategic importance in the public sector in 1956, the demand for some sort of Parliamentary control over their functioning arose. As explained earlier, the question of exercising parliamentary scrutiny over the accounts of the public corporations was first raised by the Committee on Public Accounts in its 1950-51 Report on 1947-48 accounts, presented in March, 1951. In its Report of 1952-53, while agreeing with the sub-committee's report that "The sub-committee doubt the constitutional propriety of Government converting State industrial undertakings into Private Limited Companies. Such a course not only detracts from parliamentary control but also affects the audit control of the CAG, which the sub-committee regard as essential on behalf of Parliament", the Committee not only re-emphasised the need for adequate control, but also doubted the Constitutional propriety of forming private companies for management of industrial undertakings of Government. During a discussion on a private member's resolution on 'Parliamentary Control of Public Corporations' in the House of People in December, 1953, Dr. Lanka Sundaram suggested the constitution of a parliamentary committee, apart from the Public Accounts Committee and the Estimates Committee under the Speaker's direction, to sit all the year round, specifically, charged with the task of looking into the affairs of the various categories of corporations, companies and institutions. The motion had wide support and the general consensus of the House was that Parliament was ultimately the real judge of public interest and had to be more vigilant and active in the running of the industries, and they would not be doing their duty to the country and to the tax-payers, if they had no voice in their proper administration and there was a paramount need to have a mechanism to supplement the investigations of the PAC and the Estimates Committee. Shri C.D. Deshmukh, the then Finance

Minister, opposed the motion on the ground that at that stage of the industrial expansion and development, there was a danger of Parliament trying to go too far, and immersing too much in the Administration, and whether it was not better to enable the Executive to manage them, and then to call for, them to account in the way in which the Parliament always called the Executive to account. While there was nothing to stop the Parliament from setting up any body, a sort of combination of PAC and the Estimates Committee to look into the accounts and affairs of these corporations was needed, and since the sub-committees of the PAC have been set-up to go into certain matters, Government thought it inadvisable to set up any special machinery.

SPEAKER'S APPEAL TO PRIME MINISTER

The then Speaker, Shri G.V. Mavalankar drew the attention of the Prime Minister, Shri Jawaharlal Nehru, on 19th December, 1953, to the debate in the House on parliamentary control over autonomous bodies and corporations, when a general feeling for setting-up a standing parliamentary committee to examine the working of the corporations and to make suggestions for improvements was raised, which was followed by a communication from 15 members suggesting that he should consider the question of the appointment of such a committee. However, the Rules Committee, whom he had consulted, felt that there was no harm, if a separate committee was appointed with limited functions, such as to examine reports and the working of such bodies after the reports were presented to or were otherwise circulated to members on matters concerning their organisation, working and administration. The Speaker assured that "the proposed committee will not go into the problems of the day-to-day administration of such corporations, but would only consider questions of policy and their working broadly". Emphasising the accountability of public corporations to Parliament, the speaker dwelt at length on the unsatisfactory state of affairs in the present system to ensure sufficient control of the Parliament over such Bodies and reiterated the need for striking a via media "whereby members are made to feel that their legitimate grievances are not being throttled and there are safeguards from the Parliamentary point of view" and felt that there was no harm in agreeing to the recommendation of the Rules Committee for the constitution of separate Committee for autonomous bodies. To allay the doubts on the part of the Government in regard to the interference of the Parliamentary Committee in day-to-day working of public corporations, the Speaker assured : "The Committee will of course work under my direction and it will be my effort to see that they do not stray beyond the functions assigned to them or cause day-to-day interference." The Prime Minister agreed that there should be an overall control of Parliament over autonomous and semi-autonomous corporations, but the object of setting them up would be defeated to some extent, if there was an interference in their day-to-day working. The idea of constituting a committee did not materialise due to the imaginary fear on the part of Government of interference with the autonomous character of the public enterprise.

DEMAND FROM MPs

During discussion* on Life Insurance Corproation Bill in the Lok Sabha, in May 1956, Shri Asoka Mehta supported the demand for setting up a separate committee to ensure accountability of the public corporations to Parliament by suggesting constitution of a standing committee, as was suggested by the Select Committee in England in respect of their nationalised enterprises, with the necessary equipment and assistance to make thorough inquiries into the working of the nationalised industries. The Finance Minister, Shri Deshmukh felt that it was for the Estimates Committee or PAC or for the Speaker or the House to decide, whether to have such a Committee or not and he was not opposed to it and would encourage such an idea but the Government have decided that the present Committees were able to cope with the work between them and there was no intention to set up one against the other.

KRISHNA MENON COMMITTEE REPORT

The Prime Minister constituted on 10th April, 1958 a sub-committee of 10 members of the Congress Party in Parliament with the Defence Minister, Shri V.K. Krishna Menon, as Chairman to consider the problems relating to state-owned corporations and to suggest how a broad supervision may be maintained by Parliament without interference in the day-to-day activities of the concerns. The inadequacy of, and limitations inherent in, the normal procedures of Parliament for dealing with matters of day-to-day administration of autonomous bodies was realised by the Committee, who had also taken into account the general opinion expressed in Parliament and elsewhere of the need to have a group of members of Parliament who made it their business on the basis of knowledge and information about the problem, and to bring forth an informed parliamentary criticism in respect of any concern or any issue. The Krishna Menon Committee suggested evolving of a suitable

* Lok Sabha debate - May 1956.

parliamentary organ to exercise supervision over the government companies taking into account the essentials of the problems contained in Speaker Mavalankar's letter to the Prime Minister and the recommendations of the Rules Committee for constitution of a separate committee.

Shri Ashok Chanda had remarked in 1958 that* "the problem is to find a systematic and streamlined parliamentary control in which the essentials will remain and the irritants disappear; in which the undertaking will be free to function without undue haste and hindrance; a function which will be scrupulously honoured so long as they function economically and effectively."

SUB-COMMITTEE

A sub-committee of the Estimates Committee was constituted in 1957 to specifically look into the working of the public undertakings of the Central Government. The Study Group of the Estimates Committee set-up in 1957 examined 19 undertakings taking an average sittings of 32 sessions over 77 hours and presented 35 Reports, including a horizontal study of two undertakings, covering period 1959-60 (9 Reports), 1962-63 (5 Reports) and 1963-64 (6 Reports). Their recommendations covered broadly project planning for administration of projects, organisation and management, personnel policies and labour management policies, financial management and some other aspects. According to Shri D.N. Tiwari, who was Chairman of the COPU during the 3rd Lok Sabha, very useful work was turned out by the Committee in bringing out delays, faults in contracts, wastage of public money, bad organisation, overstaffing etc. But according to *Shri Ananda Rao, the Committee dealt with problems in a cursory manner. Shri B.B. Mehta, Chairman, Estimates Committee, felt that to ensure the healthy growth of the enterprises the golden mean between the two extremes of *laissez-faire* and excess interference has got to be found.

MOTION FOR JOINT COMMITTEE

A motion for the constitution of a Joint Committee on State Undertakings, with ten members from the Lok Sabha and five from the Rajya Sabha moved by the Minister of Industry, Shri Manubhai Shah, on 24th November, 1961 was not pursued due to objections, both procedural and constitutional, raised by members. Another two years were taken by

* Accountability of Public Enterprises - P.30.
* Public Enterprises and Parliamentary Control Indian Journal of Public Administration Volume IV of June 1958 - P. 145.

Government to overcome the objections raised in both the Houses and on 21st September, 1963, two motions were moved* in the Lok Sabha. In the motion requesting for the constitution of a Committee to accommodate the objections raised in 1961, the words "Joint Committee of State Undertakings" were substituted by "a Committee of this House called the Committee on Public Undertakings". In the second motion, a specific request was made to the Rajya Sabha to agree to nominate five members to 'associate with this Committee'. The motions were discussed** on 18th November, 1963, nearly after a lapse of two months, and the then Minister for Industry, Shri Nityanand Kanungo, stated that the proposed setting up of a Committee on Public Undertakings was a firm step forward in the process of quicker industrial progress and particularly of parliamentary accountability of public undertakings and it would be a privilege of the members of this Committee, after its formation, to allay the fears and hesitations, if any, and create a bond of confidence between the Boards of public undertakings and the Parliament and also inspire the public undertakings to greater efforts. Twenty amendments were tabled against the motion, wherein the need to invest the Committee with wider powers and not to curb its functions was stressed, since the limitations on the jurisdiction of the Committee reflected a sense of distrust or mistrust of Parliament, the Committee would not act as an enemy or critic or a fault-finding body, rather be a confider and protector against irresponsible pressures and would act as the guardian of interest. A plea was also made that the Committee should have the assistance of the CAG, who should be more directly associated with the Committee. The House adopted both the motions with minor changes as under :—

"That a Committee of this House to be called the Committee on Public Undertakings be constituted with ten members who shall be elected from among the members of this House according to the principle of proportional representation by means of a single transferable vote.

That the functions of the Committee shall be :

(a) to examine the reports and accounts of the public undertakings specified in the Schedule;

(b) to examine the reports, if any, of the CAG on the public undertakings;

(c) to examine, in the context of the autonomy and efficiency of the public undertakings, whether the affairs of the public

* Lok Sabha Debates 21st September 1963.

** Lok Sabha Debates 18th November, 1963.

undertakings are being managed in accordance with sound business principles and prudent commercial practices; and

(d) to exercise such other functions vested in the PAC and the Estimates Committee in relation to the public undertakings specified in the Schedule by or under the Rules or Procedure and Conduct of Business of this House as are not covered by clauses (a), (b) and (c) above and as may be allotted to the Committee by the Speaker from time to time :

Provided that the Committee shall not examine and investigate any of the following matters, namely :

(i) matters of major Government policy as distinct from business or commercial functions of the public undertakings;
(ii) matters of day-to-day administration; and
(iii) matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.

That the members of the Committee shall hold office for the duration of the present Lok Sabha.

That in other respects the Rules of Procedure of this House relating to Parliamentary Committees shall apply with such variations and modifications as the Speaker may make."

The Lok Sabha passed the motion requesting Rajya Sabha to nominate five members to associate with the Committee on Public Undertakings. "That this House recommends to Rajya Sabha that the Rajya Sabha do agree to nominate five members from Rajya Sabha to associate with the Committee on Public Undertakings and on the constitution of the said Committee, to communicate to this House the names of the members so nominated by Rajya Sabha".

The Committee on Public Undertakings : The Committee on Public Undertakings with ten members from Lok Sabha and five Members from Rajya Sabha was constituted for the first time from 1st May, 1964 for examining 60 public undertakings under the Chairmanship of Shri P. Govinda Menon. The Rules Committee approved the new rules relating to the functions and constitution of the Committee on Public Undertakings on 11th November 1965. Rules Committee approved the amendments to Rules 308, 310 relating to the functions of PAC and Estimates Committee to provide that they would not exercise their functions in relation to such public undertakings as were allotted to the COPU by these rules or by the Speaker. In their First Report (3rd Lok Sabha) presented to Lok Sabha on 23rd November 1965, the Rules

Committee recommended adoption of new Rules 312A and 312B and amendment to Rules 308 and 310, which were adopted by the House. The tenure of the proposed Committee constituted in 1964 was for the duration of the Third Lok Sabha. But the term of office of members of the Committee was not to exceed one year since the commencement of the Fourth Lok Sabha. The number of public undertakings increased gradually in the successive Plans and had crossed 100 by 1973, when a member of the Committee suggested increasing the strength of the Committee to enable it to undertake an in-depth study of more undertakings and also to watch the implementation of the Committee's recommendations. The Committee decided on 3rd April, 1973 that in view of the increase in the number of public undertakings, its strength should be raised from 15 to 30 on a par with the strength of the Estimates Committee. The Chairman took up the matter with the Speaker, who referred it to the Rules Committee of the Lok Sabha. The Rules Committee of the Lok Sabha at their sitting held on 8th August 1973, opined that "the strength of the Committee on Public Undertakings be brought at par with that of the Committee on Public Accounts and Estimates, 15 members be elected from Lok Sabha and 7 members of Rajya Sabha be associated with it from the next term of the Committee." The Rules Committee in their Second Report (Fifth Lok Sabha) presented to Lok Sabha on 28th August, 1973 recommended for the adoption of the amendment to Rule 312-B which raised the strength of the Committee on Public Undertakings to 22. The COPU constituted on 1st May, 1974 for the year 1974-75 had 22 members, 15 from Lok Sabha and 7 from Rajya Sabha.

The Committee framed its internal working rules on 2nd June 1964, called "Rules of Procedure of the Committee on Public Undertakings (Internal Working)." The Committee decided its programme of work at the beginning of its term each year on the basis of a memorandum prepared by the Secretariat containing a brief resume of work done by the committee in the previous years, number of Audit Reports presented and to be presented by the CAG during the course of the year, references, if any, received from the House or the Speaker, subjects selected in the previous year which had not been completely examined, horizontal studies made so far, along with the list of all public undertakings within the purview of the Committee, list of undertakings already examined either by the Estimates Committee (prior to 1964) or the COPU, and those which had not been examined by the Committee or the earlier Estimates Committee. The Committee generally took up undertakings which had not been examined earlier or which formed the subject matter of discussion in the Parliament or the Press. On an average eight to nine undertakings, were selected including a topic or two for horizontal study along with the Audit Reports, if any, relating to an undertaking selected for examination and presented their reports, including action taken reports, during its tenure.

PROCEDURE

As soon as the Committee decided on the subject for its examination, the concerned Ministry and undertakings were required to furnish the material/information more or less on a set pattern, which *inter alia*, included historical background, objectives, organisational set-up, current and future programme of activities, etc. of the undertakings. In the case of subjects taken up for examination on the basis of the material contained in the Audit Reports (Commercial), the Ministry or Undertaking furnished only information on specific aspects but the CAG's office (the Commercial Audit Wing under ADAI- Commercial) sent memorandum of important points containing the issues raised in the Audit Reports, giving the background of the points along with the explanation and the Audit views thereon and probable questions based on the information furnished by Audit in the Memorandum and the additional information called for, where necessary, from the Ministry/Undertaking, for examination of representatives of the Ministry and the Undertaking. The length and depth of the material depended on the nature of the undertaking and the quantum of issues thrown up for discussion. The material to be examined based on Audit Report has to be vetted by Audit first and then sent to the Committee Secretariat. While the Chairman of the Committee presented the Report to the Lok Sabha, a member nominated by the Committee/Chairman presented it in the Rajya Sabha. The *modus operandi* adopted by the Committee for examination covered visits to undertakings, formation of study groups/sub-Committee for detailed examination of specific subjects/areas. Over a time, the reports have evolved a standard pattern and covered historical background, organisation, management, production, commercial results, capital investment and finances, future plans and programmes, etc. The Ministries were required to furnish replies to the report within six months indicating the action taken in response thereto. The Committee's Secretariat pursued the matter with the concerned Departments and Ministries from the end of the third month and if any replies were not received within the period of six months the matter was brought to the notice of the Chairman and if necessary the Secretary of the Department/Ministry was called to meet the Chairman or to explain the position. As and when the replies were received they were examined and further information, wherever required was called for with the approval of the Convenor of the Study Group/Chairman. A statement showing the action taken by the Government on the Committee's recommen-dations along with its own comments was prepared by the Secretariat, which was examined by the Sub-Committee/ Study Group, who made its recommendations to the Chairman. Draft Report, if any, prepared was also submitted to the Chairman/Committee for approval. The follow-up report on the Action Taken Report was sent to the Undertaking and the Ministry for factual verification, like the original report, before it was presented to both the Houses of Parliament. Action Taken Reports consisted of five chapters - comments of the Committee on some important recommendations, Government's replies, which have not been found satisfactory by the Committee, recommendations which have been accepted by the Government, recommendations in respect of which Government's replies have been accepted by the Committee, recommendations in respect of which replies have not been received. Analysis of the action taken by the Government on the recommendation of the Committee was appended to the Report.

ARC'S SUGGESTION

The suggestion* of the Administrative Reforms Commission that the "Committee on Public Undertakings may consider taking up for examination a group of undertakings falling within one major area of enterprise and bringing out a consolidated report thereon" to facilitate larger coverage of undertakings and their problems during the Committee's examination, avoidance of similar issues of different undertakings operating in the same field of industry and to enable simultaneous and comparative appraisal of the performance of different projects in the same area of enterprise and presenting a consolidated report to enable members of Parliament to acquaint themselves with the problems on which they should focus their attention was examined by the committee. The Committee**, however, felt that selection of undertakings for examination should be made after considering the problems existing at that time and examination of undertakings in one group might result in their study irrespective of the need for doing so in that year and the procedure suggested by the Commission may help examination of important undertakings in the first two or three years of

* Administrative Reform Commission's Report on Public Sector Undertakings 1966 - P. 27.

** COPU 29th January, 1965.

the formation of the Committee after the constitution of new Lok Sabha, resulting in conglomeration of minor undertakintgs for consideration during the 4th and 5th years of Lok Sabha. There were 30 undertakings which did not fall all under any of the groups classified in the Report of the Commission, which would have to be examined by the Committee. It therefore, decided that "the existing practice of selecting six or seven undertakings of different categories was more advantageous inasmuch as it enabled the Committee to examine each year a set of representative undertakings, which in their view, called for examination in that year".

NEW APPROACH

In March, 1973 there were 112 undertakings and the COPU and the EC had examined by then 47 undertakings, under 16 Ministries of the Government of India. 2 undertakings were examined on five occasions, 1 undertaking on four times, 8 undertakings on three occasions, 14 undertakings twice and 22 undertakings once. Audit Reports on 65 undertakings under 16 Ministries including those issued as far back as 1950 and as recent as 1971 remained to be examined by the Committee, when the decision was taken by the Committee in its meeting held on 25th July 1973, not to confine selection of subjects to examination of Audit Reports only, since it reduced the frequency of examination of individual undertaking, rendered Parliament's control superfluous and weak and reliance on mere Audit Reports tended to make their approach predominantly financial and essentials got drowned in a quagmire of details and decided to enlarge the area of selection to examine burning and topical issues and present their conclusions. It was a vital and far reaching decision that set the course and pace of the Committee's future performance.

PERFORMANCE

The COPU has examined 120 undertakings, out of 237 under-takings upto April, 1989 and presented 198 original Reports and 198 Reports on action taken by the Government on its earlier Reports. 198 Reports included 27 horizontal studies on various aspects of the working of the public sector undertakings and 166 reports on individual undertakings, which covered 47 Audit Reports and 5 paras included in ARs of the CAG presented to the parliament during 1964-65 to 1988-89. More than one Report - some times upto five or six - on each undertaking were presented by the Committee. The studies covered certain aspects of working of the undertakings or of horizontal nature of several undertakings. 28 horizontal studies covered the following topics/subjects of selected public sector undertakings :

(i) Organisation and administration of Nationalised Industrial Undertakings.

(ii) Preparation of budget estimates of Public Undertakings and presentation of their Annual Reports and Accounts to Parliament.

(iii) Public Undertakings - Forms and Organisations.

(iv) Revision of the form and content of the Demands for Grants (exclusion of profit and loss accounts and balance sheet of Public Undertakings from the Demands for Grants).

(v) (a) Public Undertakings - Accommodation ƒented in principal cities and guest houses, staff cars etc., maintained by them. (b) Extravagant Expenditure on guest houses incurred by Public Undertakings.

(vi) (a) Personnel policies of Public Undertakings.

(b) Personnel policies and Labour Management Relations in Public Undertakings.

(vii) Townships and factory buildings of Public Undertakings.

(viii) Management and administration of Public Undertakings (Planning Projects).

(ix) Material management in Public Undertakings.

(x) Financial management in Public Undertakings.

(xi) (a) Public relations and publicity in Public Undertakings.

(b) Extraordinarily high expenditure on publicity by Public Undertakings.

(xii) (a) Production management in Public Undertakings.

(b) Public Undertakings - Delays in commencement of production/business, Under-utilisation of capacity and related matters.

(xiii) Role and achievement of Public Undertakings.

(xiv) Foreign collaboation in Public Undertakings.

(xv) Extravagant and infructuous expenditure on entertainment by Public Undertakings.

(xvi) Galloping rise in foreign tours and costs thereof undertaken by officials of Public Undertakings.

(xvii) Unusually high expenditure by Public Undertakings for their Head Offices.

(xviii) Structure of Boards of Management of Public Undertakings and other allied matters.

(xix) Expenditure on hiring of Storage Space by Public Undertakings.

(xx) Perquisites enjoyed by Public Sector Executives and Perquisites enjoyed by Air India Executives -A case study.

(xxi) Appointment of Auditors in Government Companies.

(xxiii) Promotion policies of Public Undertakings.

(xiiii) Productivity in Public Undertakings.

(xxiv) Horizontal study on management of inventories in Public Undertakings.

(xxv) Accountability of Public Undertakings and the role of Bureau of Public Enterprises.

(xxvi) Accountability and autonomy of Public Undertakings.

The COPU finalised 34 Reports during Third Lok Sabha (1964-65 to 1966-67), 70 during the Fourth Lok Sabha (1967-68 to 1969-70), 90 during the Fifth Lok Sabha (1971-72 to 1975-76), 55 during the Sixth Lok Sabha (1977-78 to 1978-79) and 81 Reports during Seventh Lok Sabha (1980-81 to 1984) and 49 Reports during Eighth Lok Sabha (1985-86 to April 1989).

During the period 1973-74 to 1988-89, 187 undertakings/subjects were taken up for examination by the COPU, ranging from 5 in 1977-78 to 23 in 1987-88 (16 undertakings for comprehensive examiantion, 6 for aspect studies and 1 for horizontal examination) and the average number of undertakings taken up for examination was 12 per annum. The Audit Reports covered during such examination was 52* out of 144. The number of original Reports presented during the period was 104. The Committee has yet to examine 129 undertakings *i.e.* 49% of public sector undertakings under Government of India. The total performance has fallen short by nearly 50% of the aggregate tasks set out in the mandate given to the Committee by Parliament, which has not received the attention needed for necessary solution.

ARREARS IN EXAMINATION OF AUDIT REPORTS

The backlog of arrears in examination of Audit Reports of CAG by COPU was 91 *i.e.* 48 appraisals Reports, 18 introductory Reports, 25 Reports on individual irregularities/other topies of interest containing 785 paras on various companies/corporations (as on 1986) and resume of the company Auditor's report. The Committee has examined only three paras included in the several Reports under categories other than appraisals and the appraisal reports pending to be examined was 51% of

* Including individual paras (five) contained in A.Rs.

the total reports presented by the CAG to parliament during the period August 1970 to May, 1989. The oldest AR to be examined related to 1969-70. Although the growing pendency was reported to the Lok Sabha Secretariat every year, it was only in their Forty-Ninth Report 1981-82 that the COPU recommended (para 19, Part II) that "The CAG's Report (Commercial) is presented in several parts, in addition to his comments on the accounts published in the Annual Reports of the undertakings. There should be some automatic follow-up action on these by the Ministries. These should be reviewed for suitable action at the periodical performance review meetings and at the time of review of the working before laying of the Annual Reports before Parliament". According to the Committee's Seventh Action Taken Report (1982-83), Government accepted the recommendation and advised* the Administrative Ministries to take note of the recommendation, while conducting the periodical performance review meetings and before laying the Annual Reports of the Ministries before Parliament. At their sitting held on 7th June, 1985, the COPU decided that each Ministry/Department should be requested to furnish a brief note each on their review of the follow-up action taken on the Reports of the CAG of India presented to the Parliament during the period 1984-85, which should be got vetted by Audit before submission to the Committee. The Lok Sabha Secretariat informed** the Ministry of Agriculture and Cooperation, etc. to furnish the comments by 20th August, 1985 for being placed before the Committee. The Commercial Audit Wing brought to the notice of the Lok Sabha Secretariat that on the analogy of the procedure adopted by the PAC requiring the Ministry of Finance to coordinate and collect the notes on each para contained in the various Audit Reports, duly vetted by Audit, to be forwarded to the Lok Sabha Secretariat, similar procedure could also be adopted in regard to the action taken reports on the various Commercial Audit Reports by the Ministry of Finance but no visible breakthrough has been achieved since then. Mismatch between rate of presentation of Reports and their examination by the Committee has created an anomalous situation of increasing the volume of unexamined Reports. In effect, the procedure for selection had eroded the system of accountability enshrined in the system of parliamentary control, since it tended to become discriminatory, which not only enabled several Chief Executives and Managements to escape any examination by the Committee on CAG's Reports but also affected substantially the utility and effectiveness of the Audit Reports as tools to enforce

* MOF (BPE) O.M. No. 11(IV)/82-BPE/Parl.) dated 31st January, 1983.
** Lok Sabha Secretariat (PU Branch) No. 301(1)-PU/85 dated 16th July, 1985.

accountability by the COPU and Parliament. In the absence of any adquate and effection system to follow up Reports not examined by the COPU, the remedial action by the Management/Government on these Reports presented to Parliament could not be ensured, which made big dents on the whole system. The paramount need is to arrest this drift and dangerous lacunae in operation of the Committee System in this sphere.

LIST OF ABBREVIATION

1.	AR	—	Audit Report
2.	ADAI (Commercial)	—	Additional Deputy Comptroller and Auditor General (Commercial)
3.	CAG	—	Comptroller and Auditor General of India
4.	COPU	—	Committee on Public Undertakings
5.	EC	—	Estimates Committee
6.	PAC	—	Public Accounts Committee

SOURCES AND REFERENCES

1. Report of PAC 1950-51 on the accounts for 1947-48.
2. Report of PAC 1952-53
3. Lok Sabha Debates 1953-54
4. Lok Sabha Debates on LIC Bill in May, 1956.
5. Krishna Menon Committee Report
6. Administrative Reforms Commission's Report on Public Sector Undertakings 1966, p. 27.
7. Reports of Estimates Committee 1958-59 to 1963-64.
8. Accountability of Public Enterprises by Shri Ashok Chanda, p. 30.
9. Public Enterprises and Parliamentary Control-Indian Journal of Public Administration-Volume IV of June 1958, p. 145.
10. First Report (3rd Lok Sabha) of COPU.
11. Report of COPU presented on 29th January 1965.
12. Second Report (5th Lok Sabha) presented on 28th August 1973.
13. Financial Committees - A Review 1964-65 to 1988-89 published by the Lok Sabha Secretariat.

30 Relations with Other Supreme Audit Institutions

The Comptroller and Auditors General of India have forged and developed relations and associations with international organisations on Government accounting and auditing from the very beginning - although no such links were established by the Auditors General prior to Independence - which blossomed into full-fledged and multicoloured external relations with other Supreme Audit Institutions (SAI) and collective bodies. The Commonwealth Auditors General's Conference was the earliest of such external forums - both due to historical and technical reasons - since the system and practice of government audit introduced in India was patterned on the United Kingdom model and the Commonwealth link had become familiar under the new foreign policy of India enunciated by the first Indian Prime Minister, Pandit Jawaharlal Nehru. Later on, India entered the International Organisation of Supreme Audit Institutions (INTOSAI) and played a key role in setting up the Asian Organisation of Supreme Audit Institutions (ASOSAI).

CONFERENCE OF COMMONWEALTH AUDITORS GENERAL

The Conference of Commonwealth Auditors General started initially at London in 1951 and thereafter once in every three years to discuss subjects of common interest and also developments in various areas of audit mainly for promoting close understanding in the field of audit through pooling of experiences. The Conference did not arrive at any decision or pass resolutions, since each Auditor General was an independent statutory authority in his own country and was free to adopt his own techniques and methodology of audit but the Chairman of the Conference normally summed up the gist of discussions. The record of proceedings were treated as confidential for use by the participants. Thirteen such Conferences were held upto 1987. The Comptroller and Auditor General personally participated in all such Conferences, except the one held in 1960, when an observer from his Audit Office at London participated, and one or two senior officers of the Department accompanied him to the meeting. The Seventh Conference was held at New Delhi in October 1969, which was chaired by Shri S. Ranganathan, who was assisted by the DAI, Shri A.K. Mukherjee. Twenty-two

Commonwealth countries participated in the Conference, which discussed nine topics. The only other Conference which was attended by both the Comptroller and Auditor General and the DAI was the 1984 Conference at London, when Shri T.N. Chaturvedi was accompanied by Shri R.K. Chandrasekharan. Shri A. Baksi who attended the London Conference held in 1972 found quite a few of the Auditors General who were not ex-Civil servants. In this Conference notable contributions were made by the Auditor General of Canada, a man of twelve years experience in that post, who had come from a firm of Chartered Accountants and was also the Auditor of the United Nations, as well as by the Auditor General of New Zealand, Jamaica, etc. who were professional chartered or Cost Accountants. The SAI of India actively participated in the discussions of various topics in the Conferences held upto 1978 and presented country papers on a few of them. From the Conference held at Kingston in 1981, the participation was more intensive. Not only country papers on all topics listed in the agenda of each Conference were contributed but also lead papers on specific topics chosen voluntarily were presented. In the Conference held in 1981, Shri Gian Prakash acted as rapporteur for the topic on "Audit Procedures and Methods". In the London Conference of 1984, Shri T.N. Chaturvedi presented lead papers and acted as rapporteur for the topic - "Developments in Value for Money Audit". He was also the rapporteur for topic on "Audit of Social Programmes" in the Ottawa Conference held in 1987. These Conferences certainly must have influenced the participants in opening up new vistas, bringing about fundamental innovations and introducing new developments in theory and practice of government audit in their own countries.

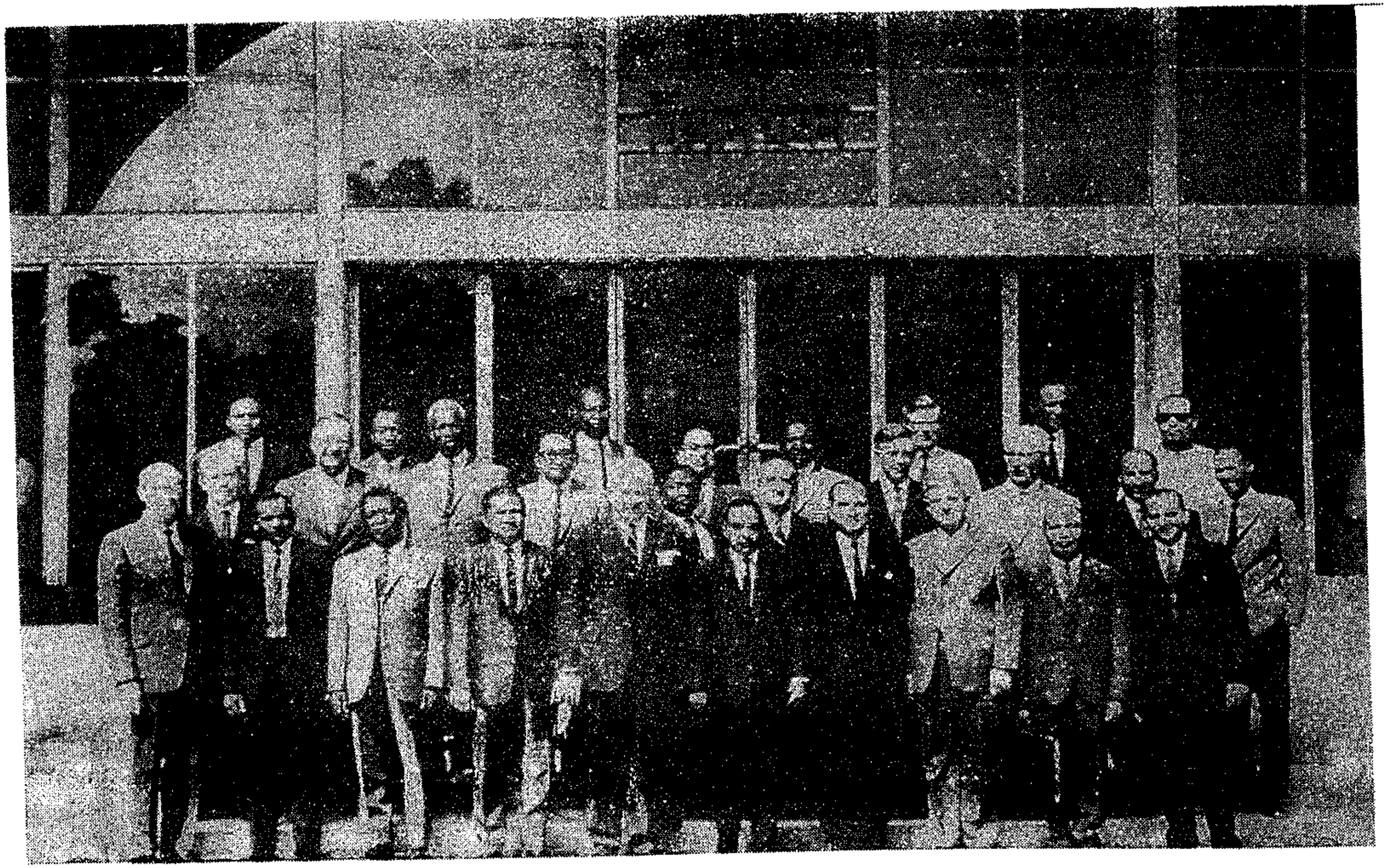


Fig. 30.1: Conference of Commonwealth Auditors General New Delhi-8th to 14th October, 1969

First Row : B.D.A. Greig (New Zealand), L.T. Kulasingham (Malaysia), M.A. Daramola (Nigeria), M.D. Zain Bin Ahmad (Malaysia), A.M. Henderson (Canada), S. Ranganathan (India), S.M. Raza (Pakistan), V.J.W. Skermer (Australia), D.R. Settinayaka (Ceylon), C. Muthucoomaraswamy (Ceylon).

Second Row : J.C. Northway (Botswana), G.A. Hutchinson (Tanzania), E.W. Gregoire (Trinidad & Tobago), Chee Keng Soon (Singapore), A. Osei (Ghana), Carmel Naudi (Malta), D.E. Bragg (Lesotho), H.A. Long (United Kingdom), D. Tarr (Lesotho), T.E. Diteko (Botswana).

Third Row : D.G. Njoroge (Kenya), A.S.C. Johnson (Sierra Leone), K.A. Taylor-Appiah (Ghana), J. Stathis (Cyprus), G.H. Kabiswa (Uganda), J.F. Stratfull (Mauritius), R.V. Irvine (Jamaica), M. Aboud (Tanzania).

INTOSAI

The International Organisation of Supreme Audit Institutions (INTOSAI) was founded in early 1950's to promote improvements in evaluating governmental performance, to strengthen financial management of government agencies and departments and to make sure that they complied with applicable laws and regulations. This was sought to be achieved through exchange of ideas and experiences between supreme audit institutions all over the world in the sphere of all categories of public financial control. A Supreme Audit Institution (SAI) is one which conducts public audit of its national governments. INTOSAI holds triennial congresses and regional seminars, sponsors co-operative training programmes and study groups, provides through INTOSAI development initiative (IDI) information exchange and training for both practitioners and those who train them, and issues a quarterly publication "International Journal of Government Auditing". The seat of INTOSAI is Austria, Vienna and the Secretary General of INTOSAI is also the president of the Audit Court of Austria. It is funded by contributions from its members, grants, donations and income from its publications and membership fees since 1978. The official seal of INTOSAI expresses succinctly its aim - "Experientia Mutua Ombibus Prodest (Mutual Experience Benefits All)" and participation is open to member countries of the United Nations Organisation or one of its specialised agencies. It has adopted English, French, Spanish, German and Arabic as its medium of communication. India became a member in 1978. As on 31st March 1989, INTOSAI had 153 members on its roll. The Congress, the governing board, the general secretariat, permanent commissions and regional working groups are the main organs of the organisation.

The first Congress of the INTOSAI known as International Congress of Supreme Audit Institutions (INCOSAI) was held in 1953 and since then, thirteen Congresses have been held, the last one in Berlin in 1989. In all, 61 topics were discussed in the thirteen congresses held so far. The declaration at the Congress held at Lima (Peru) in 1977 and the general statement on "Performance Audit, Audit of Public Enterprises and Audit Quality" at the 12th Congress held in Sydney in 1986 have been acknowledged as important milestones in the history of INTOSAI.

The Lima Declaration of Guidelines on Auditing Precepts contained VII Articles and 25 sections, comprising of, Preamble (i) General - purpose of audit, pre-audit and post-audit, internal and external audit, formal audit and performance audit, (ii) Independence - independence of the Supreme Audit Institutions, independence of the members and officials of Supreme Audit Institutions, financial independence of Supreme Audit Institutions, (iii) Relationship to Parliament, Government and Administration - relationship to Parliament, relationship to government and administration, (iv) Powers of Supreme Audit Institutions - powers of investigation, enforcement of findings of Supreme Audit Institutions, expert opinions and other powers of collaboration, (v) Auditing methods and procedures, auditing staff, international exchange of knowledge, (vi) Reporting - reporting to Parliament and to the public, and method of reporting, (vii) Auditing power of Supreme Audit Institutions - Constitutional basis of auditing powers; audit of public financial management, audit of public authorities and other institutions abroad, tax audits, public contracts and public works, audit of electronic data processing facilities, industrial and commercial enterprises with public participation, audit of subsidized institutions and audit of international and supernational organisations.

Even before India became a member of INTOSAI, the CAG of India evinced keen interest in its deliberations and activities. The Directors of Audit at London or Washington were deputed as observers or participants, though no specific papers on any topic were presented. Shri R.K. Khanna, the Additional Deputy Comptroller and Auditor General (Headquarters) was deputed to attend the Sixth Congress held at Tokyo in 1968. The Seventh Congress held at Montreal in 1971 was attended by Shri S. Ranganathan, the then CAG, who presented papers on "Management or Operational Auditing - Extension of the Scope of the Work of SAI" and "Audit Staff Personnel - Selection and Training" and also acted as the chairman in respect of the discussion held on the former topic. The Tenth Congress at Nairobi (1980) was attended by Shri Gian Prakash, then CAG. From the Eleventh Congress held at Manila in 1983, India was an active participant in the INTOSAI congresses and presented papers on all the topics discussed. Shri T.N. Chaturvedi, the Comptroller and Auditor General of India acted as rapporteur for the main theme III "Establishing and Maintaining the Quality of Audit Activity" in the 12th Congress at Sydney. India was chosen to audit the accounts of INTOSAI for the years 1985 and 1988 and S/Shri S.P. Joshi and M.M.B. Annavi, both ADAIs carried out the assignment.

INTOSAI currently has seven regional working groups *viz.* (i) Latin American Group (ILACIF - Latin American Institute of Fiscal Sciences) which has been functioning since 1962, (ii) the African Group (AFROSAI - African Organisation of Supreme Audit Institutions) which came into existence in 1976, (iii) the Arab Group (ARABE) which has been functioning since 1976, (iv) the Asian Group (ASOSAI - Asian Organisation of Supreme Audit Institutions) which was formed in 1979,

(v) the South Pacific Group (SPASAI - South Pacific Association of Supreme Audit Institutions) formed in 1986, (vi) Caribbean Group (CAROSAI - Caribbean Organisation of Supreme Audit Institutions) formed in 1988 and (vii) European Group (EUROSAI - European Organisation of Supreme Audit Institutions) in 1989.

INTOSAI DEVELOPMENT INITIATIVE

IDI was established in Canada as a non-profit organisation in July 1986 and its main objectives are to foster the advancement of public accounting and auditing especially in developing nations through in formation exchange and training for audit practitioners and trainers of SAI. It has a Board of Directors, which has representation from the INTOSAI Secretariat as well as American and Canadian audit offices. It has also an advisory committee consisting of representatives of the INTOSAI regional groups, some of the SAIs of the European, Scandinavian and the Caribbean countries which helps in determining the needs and reviewing annual plans. IDI is operated through a Secretariat, presently attached to the office of the Auditor General of Canada. India contributed material for the first volume of the International Directory of Information for Audit Training published by IDI which contained about 75 course designs contributed by member countries. It has also been participating in the training programmes and workshops organised by IDI for the benefit of ASOSAI member countries. Shri T. N. Chaturvedi, accompanied by a Senior Officer participated in the seminar on "Strategic Planning for Human Resource Management" organised by IDI at Manila during September 1987. He acted as co-Chairman with the head of the SAI Japan in one of the group discussions in the areas of recruitment and training, career development and employee assistance and made significant contributions in the group discussions as well as in the plenary session which considered all areas of human resources management. IDI, together with the Japanese International Cooperation Agency (JICA) assisted ASOSAI in organising a seminar at Bangkok, Thailand from December 14-27, 1987 on 'Procurement of Supplies and Services' in which India was represented by Shri H.C. Jain, DDA, OFs. India also hosted the ASOSAI/IDI Training Manager Workshop held at New Delhi during November 14-26, 1988.

INTER-REGIONAL SEMINARS

India participated in the inter-regional seminars/training programmes on government audit organised by the UN as a part of their technical co-operation activity, jointly with the INTOSAI. Shri Gian Prakash deputed two Senior officers of the department, *viz.* S/Shri R.S. Gupta

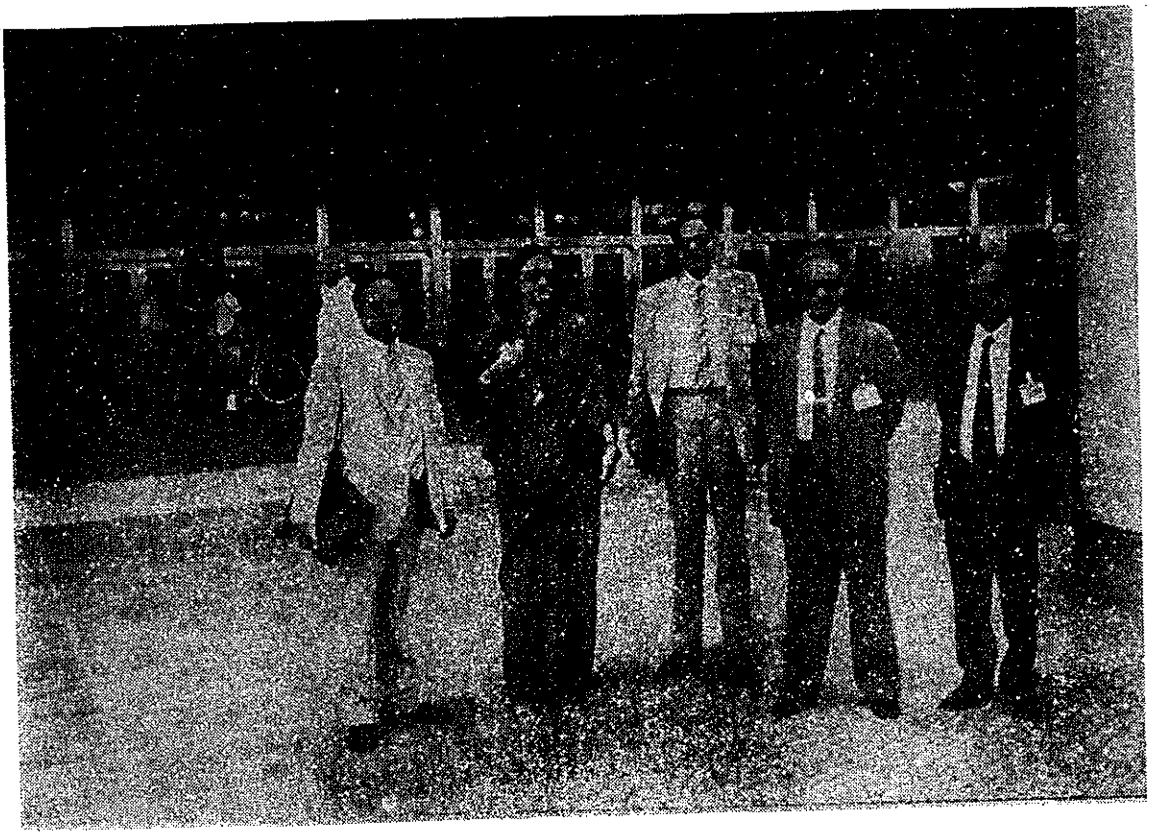


Fig. 30.2: CAG with other Indian participants outside Conference Hall during 13th INCOSAI held at West Berlin in June 1989

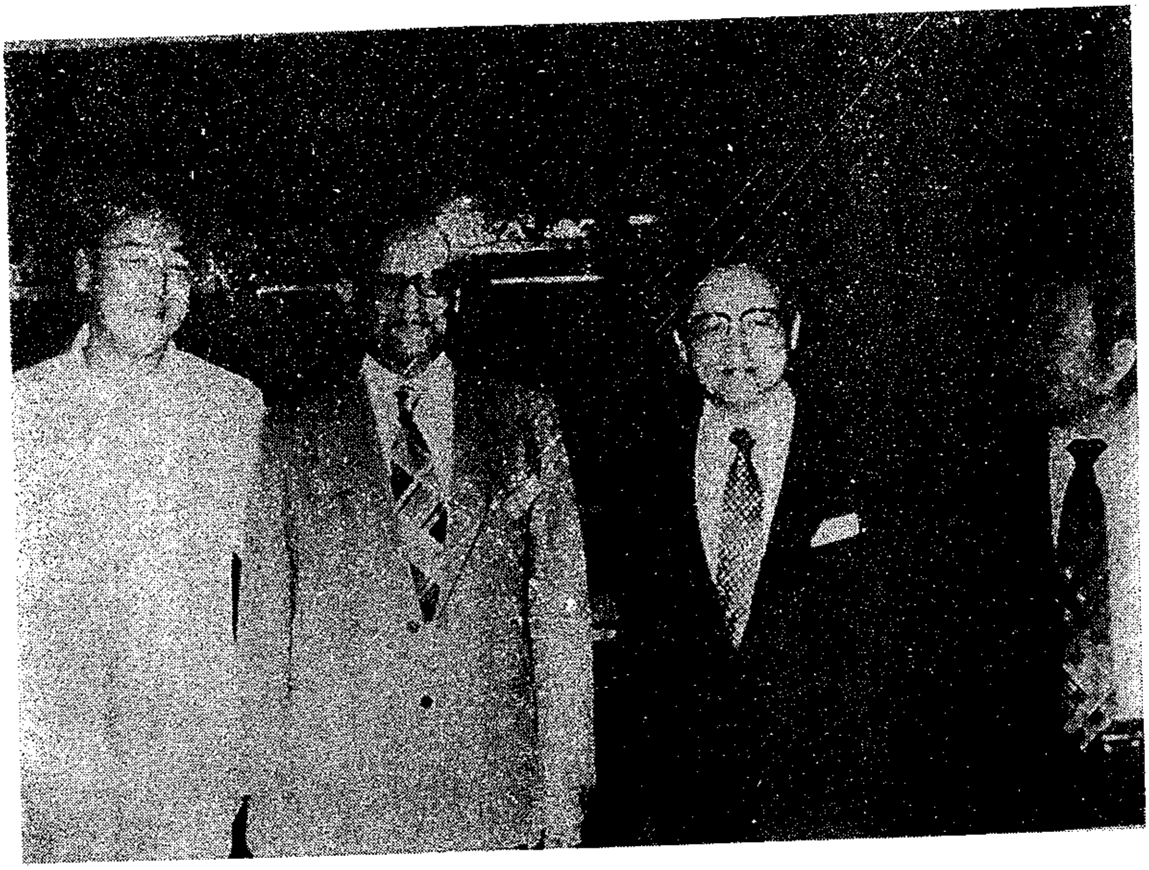


Fig. 30.3: Shri Gian Prakash, CAG with members of ASOSAI

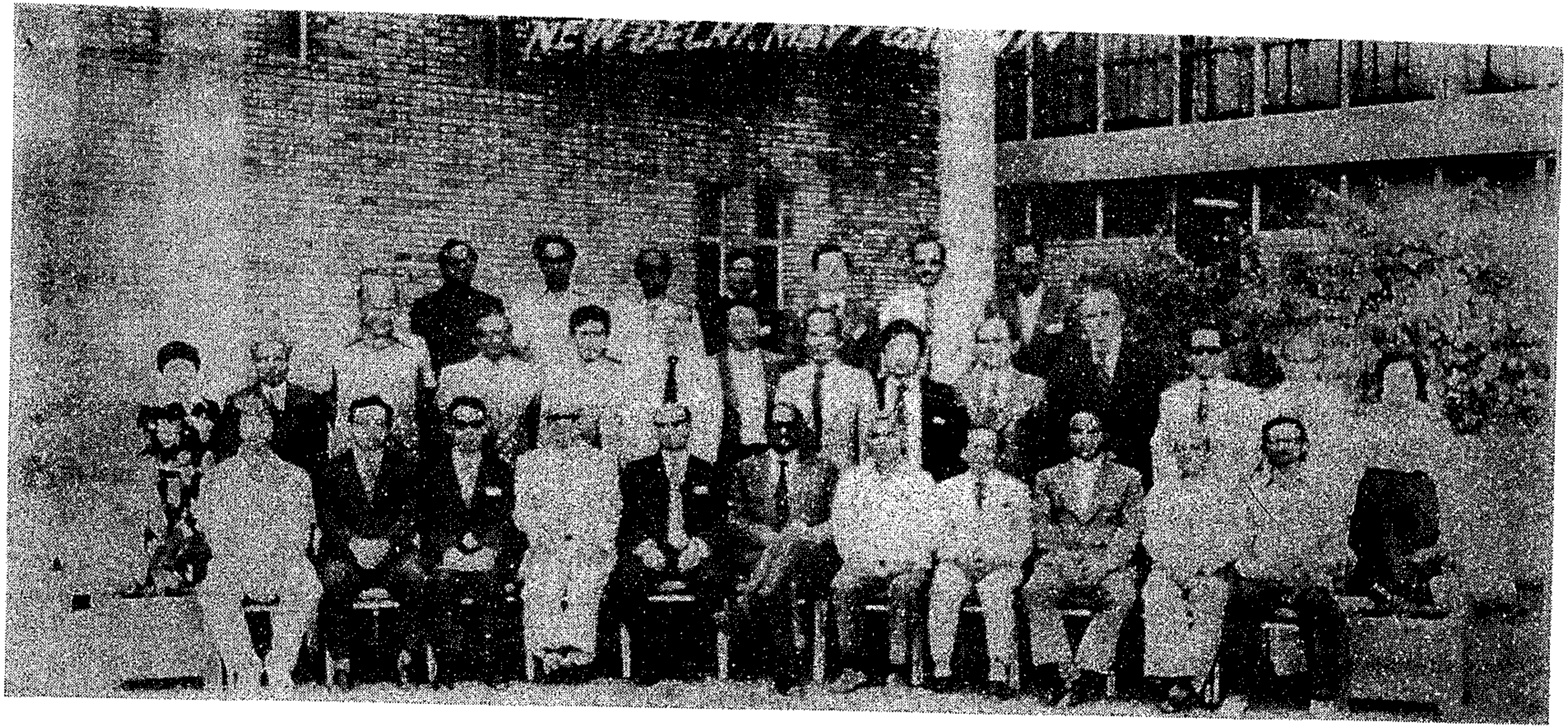


Fig. 30.4: Asian Organisation of Supreme Audit Institutions (ASOSAI) New Delhi; 7th - 10th May, 1979 - Participants of the First Assembly

Sitting (Left to Right)	:	Mr. G. Wilson (Papua New Guinea), Mr. Hong Wook Dong (Republic of Korea), Mr. Vichien Wongbiasaj (Thailand), Mr. Ram Prasad Joshi (Nepal), Mr. Fudeo Ohmura (Japan), Mr. Gian Prakash (India), Mr. Francisco S. Tantuico Jr. (Philippines), Mr. Dato Ahmad Noordin (Malaysia), Mr. Umar Wirahadikusumah (Indonesia), Mr. Usman Ghant Khan (Bangladesh), Mr. Najm Hosain Syed (Pakistan).
Standing 1st Row	:	Miss Kaiko Nosaka (Japan) - Interpreter, Mr. R.C. Suri (India), Mr. Jochen Kraske (World Bank), Mr. J.F. Kothari (Malaysia), Mr. Gopal Bahadur Panday (Nepal), Mr. Ruediger Fritz (German Foundation), Mr. Silvestre D. Sarmiento (Philippines), Mr. Pascual Castillo (Philippines), Mr. Kyong Mo. Chung (Republic of Korea), Mr. Ulrich Mueller (West Germany), Mr. J.N. Stafford (US General Accounting Office), Mr. Israwan (Indonesia), Mr. Y. Krishan (India), Mrs. Leonor M. Briones (Philippines).
Standing 2nd Row	:	Mr. V. Gauri Shankar (India), Mr. Thillava Raja (World Bank), Mr. T. Rengachari (India), Mr. Yoniadi Soewartoio (Indonesia).

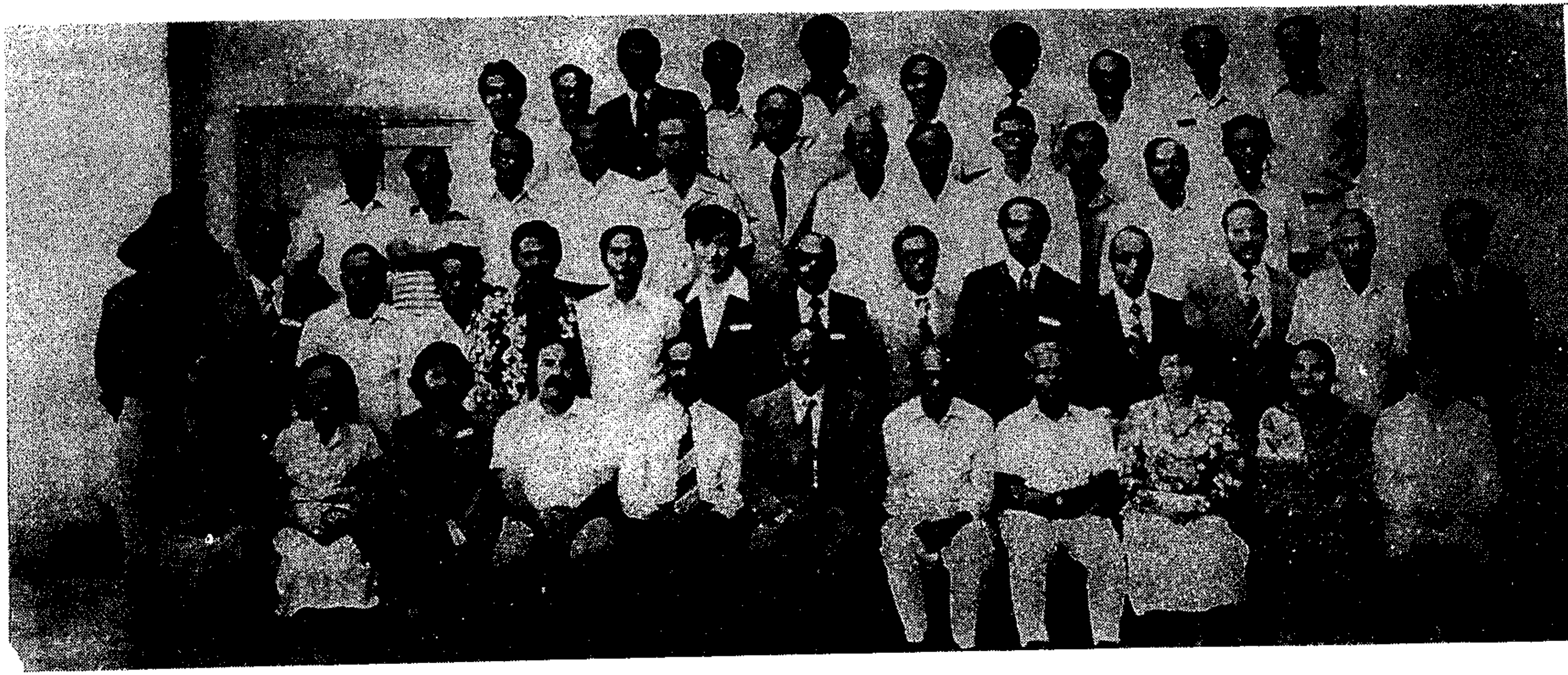


Fig. 30.5: Asian Organization of Supreme Audit Institutions:Seminar on Audit of Receipts (September 17-28, 1979) New Delhi - CAG with Participants of the Seminar.

Sitting (L to R)	:	Kum. Bharti Prasaid (India), Mrs. Chang Kok Bu (Singapore) Mrs. Emma N. Espina (the Philippines), Mr. Peter Nisera (German Foundation for International Development), Mr. R.S. Gupta (Director of Receipt Audit & Course Director), Mr. Gian Prakash (Chairman Asosai & Comptroller & Auditor General of India), Mr. Y.K. Krishnan (Deputy Comptroller & Auditor General of India) Mr. R.C. Suri (Director O&M Training), Mrs. Satya Sasnavin (Thailand), Mrs. Rekha Gupta (India), Mrs. Rosita Malong (The Philippines).
Standing Front Row	:	Mr. M.S. Batra (Seminar Secretariat), Mr. Md. Khalilur Rehman (Bangladesh), Mr. Serapio S Dompor, JR. (The Philippines), Mr. Emihano Magbiro (The Philippines) Mr. Munief Supriyadi (Indonesia), Mr. Ramon Lucena (the Phillippines), Mr. Ock-Sup Noh (Republic of Korea), Mr. Abdul Rasad Bin Abdul Rehman (Malaysia), Mr. Yadav Raman Baral (Nepal), Mr. Abdul Hashem (Bagladesh), Mr. Abdul Ahad Rasul (Afganisthan), Mr. Mr Belayet Hossain (Bangladesh), Mr. N. Gopalaswami (India), Mr. Bipin Behari (India).
Standing Middle Row	:	Mr. S.P. Kapur (Seminar Secretariat), Mr. Shree Ratna Bajracharya (Nepal), Mr. A.A. Karunaratne (Sri Lanka), Mr. Unadesan (Sri Lanka), Mr. Komson Tongphaka (Thailand), Mr. Yasmadi Yoedodibroto (Indonesia), Mr. K. Krishnan (India), Mr. D.N. Anand (India), Mr. Nilo T. Breno (The Philippines), Mr. Sahid (Indonesia), Mr. P. Subramaniam (Malaysia), Mr. N. Sunder Rajan (India).
Standing Top Row	:	Mr. Francisco B Escarda (The Philippines), Mr. D.L. Laroiya (India), Mr. V. Pattabhiraman (Seminar Secretariat), Mr. K.N. Rao (Faculty Member), Mr. Michael James Varapik (Papua new Guinea), Mr. Y.C. Satyawadi (India), Mr. Kallidass (Malaysia), U Hl Pe (Burma) Mr. J. Ganesan (Faculty Member), M.S. Shekhawat (Seminar Secretariat).

and R. Venkatesan to the 5th Seminar held at Vienna during September 1981. Shri R.S. Gupta presented a paper on Topic 2 - Audit of Tax Receipts. In the Sixth Seminar held at Vienna during October 1984, Shri R.K. Chandrasekharan, the then Deputy Comptroller and Auditor General of India presented a paper on the topic "Role of SAIs in Setting Standards and in Reviewing Internal Management Control Systems". In the Seventh U.N./INTOSAI training programme held at Vienna during September 1986, Shri V. Lakshminarayanan, who was then Accountant General (A & E), Kerala acted as faculty and presented a paper on the topic "Audit of Public Works Projects".

INSTOSAI set up an Auditing Standards Committee in May 1984 to formulate and present INTOSAI Auditing Standards. The Committee has finalised the Auditing Standards. Another Committee on Accounting Standards set up by the INTOSAI is presently engaged in collecting data from member countries.

The quarterly journal of INTOSAI titled "International Journal of Government Auditing" is published in all the five languages. Articles prepared by senior officers of IAAD have been featured from time to time in this journal. Two articles by Shri R.S. Gupta, the then Director of Receipt Audit, *viz.* "Audit of Tax Assessments - An Indian Experience" and "Audit of Tax Collection and Accounting - India (case study)" were featured in the journal. Interesting and relevant articles and material from the journal are abstracted in the "Journal of Management and Training" for wider circulation amongst our officers.

ASOSAI

The Asian Organisation of Supreme Audit Institutions, as the Asian regional group was conceived at the Conference of the Heads of Supreme Audit Institutions of the Asian Regional group held in Berlin in October 1978 which was attended by Shri Gian Prakash, who took keen interest in its constitution and drafting of charter. The ASOSAI was set up in the year 1979 to promote understanding and cooperation among member institutions through exchange of ideas and experiences in the field of Public Audit, to provide facilities for training and continuing education for government auditors with a view to improving the quality of their performance, to serve as a centre of information and as a regional link with organisations and institutions in other parts of the world in the field of public audit and to promote closer collaboration and brotherhood among auditors in the service of the government of the respective member institutions and among regional groups. Its functions were to organise conferences and seminars for the exchange of ideas and experiences in the field of public audit, to encourage and promote research and to undertake publication of research papers and professional articles in auditing and related fields. The SAI of India is its charter member and a member of the governing board from its inception. The criteria for membership of ASOSAI are that the country should be in Asia and be a member of the United Nations as also of INTOSAI. Afghanistan, Bangladesh, India, Indonesia, Japan, Malaysia, Philippines, Sri Lanka, Thailand were the charter members. In the Ist Assembly held in 1979 three more countries - Nepal, Pakistan and Korea - were admitted, five more - Israel, Australia, Papua New Guinea, Cyprus and United Arab Emirates - in 1981-82 and six more - Saudi Arabia, Yemen Arab Republic, People's Republic of China, Kuwait, Brueni and Jordan - during 1983—85. ASOSAI has 23 members and is funded through annual membership fee apart from admission fee, voluntary contributions, assistance, donations and income from publications of the organisation. The Assembly, the Governing Board, the Secretariat and the Audit Committee are its main organs and its Secretariat is located at Kuala Lumpur.

The Assembly which is the policy making body and is represented by the heads of Supreme Audit Institutions of all the member countries meets once in three years to formulate policies, which are deemed necessary to attain the objectives of ASOSAI and provides the forum for discussing mutual problems, exchanging ideas and reviewing the latest developments in the field of public auditing with a view to improving performance and raising standards. The first assembly was hosted by India in May, 1979 which elected Shri Gian Prakash as its Chairman and the other participants were Mr. Osman Ghani Khan, Comptroller and Auditor General of Bangladesh, Mr. Umar Wirahadikusumah, Chairman, Supreme Audit Board of Indonesia, Mr. Fudeo Ohmura, Commissioner, Board of Audit of Japan, Mr. Hong Wook Dong, Secretary General, Board of Audit and Inspection of the Republic of Korea, Dato Ahmad Noordin Bin Hj Zakaria, Auditor General of Malaysia, Mr. Ram Prasad Joshi, Auditor General of Nepal, Mr. G. Wilson, Auditor General of Papua New Guinea, Mr. Najm Hosain Syed, Deputy Auditor General of Pakistan, Mr. Francisco S. Tantuico Jr. Acting Chairman, Commission on Audit of Philippines and Mr. Vichien Wongbiasaj, Auditor General of Thailand along with some of the senior officers of their Audit Organisations. S/Shri Y. Krishan, DAI, T. Rengachari, ADAI, V. Gauri Shankar, Director, Receipt Audit and R.C. Suri, Director, O & M and Trg. were the senior officers from India. In addition, the Comptroller General of Ecuador, the President of ILACIF, the President Board of Accounts of Spain and the first Vice Chairman of INTOSAI and representatives of GAO, USA, the Auditor General of

Australia, the World Bank the President of the Berlin Court of Audit and the German Foundation for International Development were observers. In his welcome address, Shri Gian Prakash hoped that the SAIs in the Pacific region will join to form the Asian and Pacific Group.

In the first Seminar, the Comptroller and Auditor General of India acted as rapporteur to sub-theme III "State Audit Systems and Social Development" and provided the principal paper and comparative review paper. The Assembly's recommendations known as "Seoul recommendations" outlined twelve general guidelines on the "Supportive Role of Supreme Audit Systems in National Development" and twenty eight specific guidelines for the six sub-themes - four each on Sub-theme I to III, six on sub-theme IV, three on sub-theme V and seven on sub-theme VI. In the Second Seminar held at Tokyo during 1985 the SAI of India acted as rapporteur to Sub-theme III - Accountability of Public Enterprises. India prepared the principal and comparative review papers on this sub-theme. Guidelines of Public Accountability were formulated in this seminar and issued as Tokyo Declaration. In the 3rd Seminar at Bali in June 1988, the Comptroller and Auditor General of India was the reapporteur to Sub-theme II "Audit Practices - Tax Audit".

India, Australia and Malaysia are coordinating in the maiden venture of the ASOSAI Research Programme to bring out a publication entitled "Accountability and Control of Public Enterprises". India has completed its portion of the assignment in the drafting of the chapters allocated to it. Australia has engaged an academician for editing purposes. The publication is expected to be brought out soon.

INTERNATIONAL TRAINING

One of the basic objectives of the ASOSAI is to arrange training programmes on various themes of audit for the benefit of member countries. The SAI in India has fulfilled this objective, by holding international training programmes for the members of ASOSAI as well as other SAI of the countries in Africa and Pacific. The programmes were funded by the Government of India, Ministry of Finance through Technical Co-operation Scheme (TCS) of Colombo Plan and Special Commonwealth African Assistance Plan (SCAAP). In a few cases, assistance was provided under ITEC scheme and UNDP. The assistance under these schemes covered only living allowance, cost of travel, rental for residential accommodation etc. Expenditure in connection with the day-to-day running of the programme was met out of the contingent grant of the CAG's organisation. The assistance from the Government of India under different schemes ranged from Rs. 0.56 lakh to Rs. 3.39 lakhs depending on the number of participants and the scale of assistance

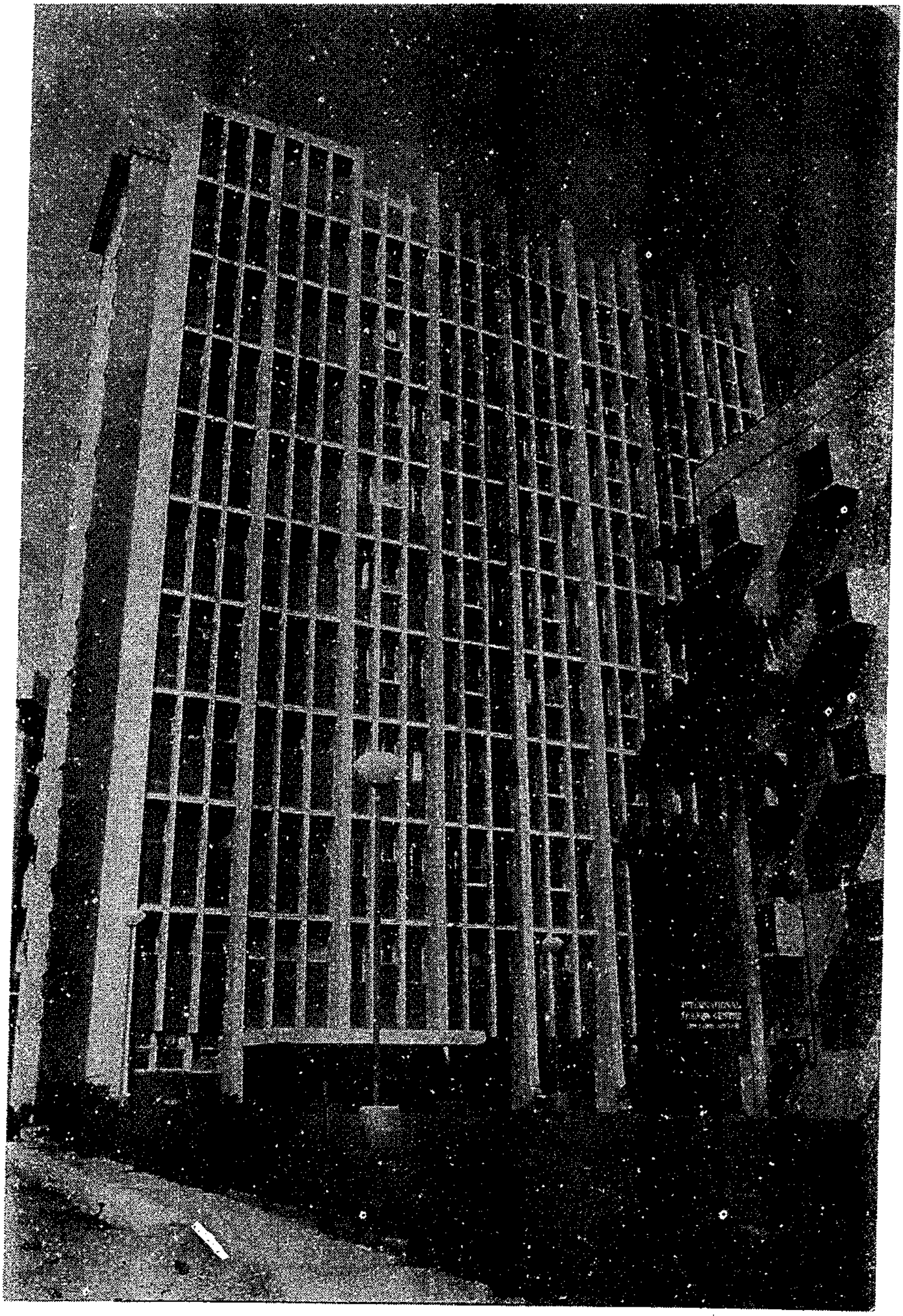


Fig. 30.6: International Training Centre in CAG's Office Complex.

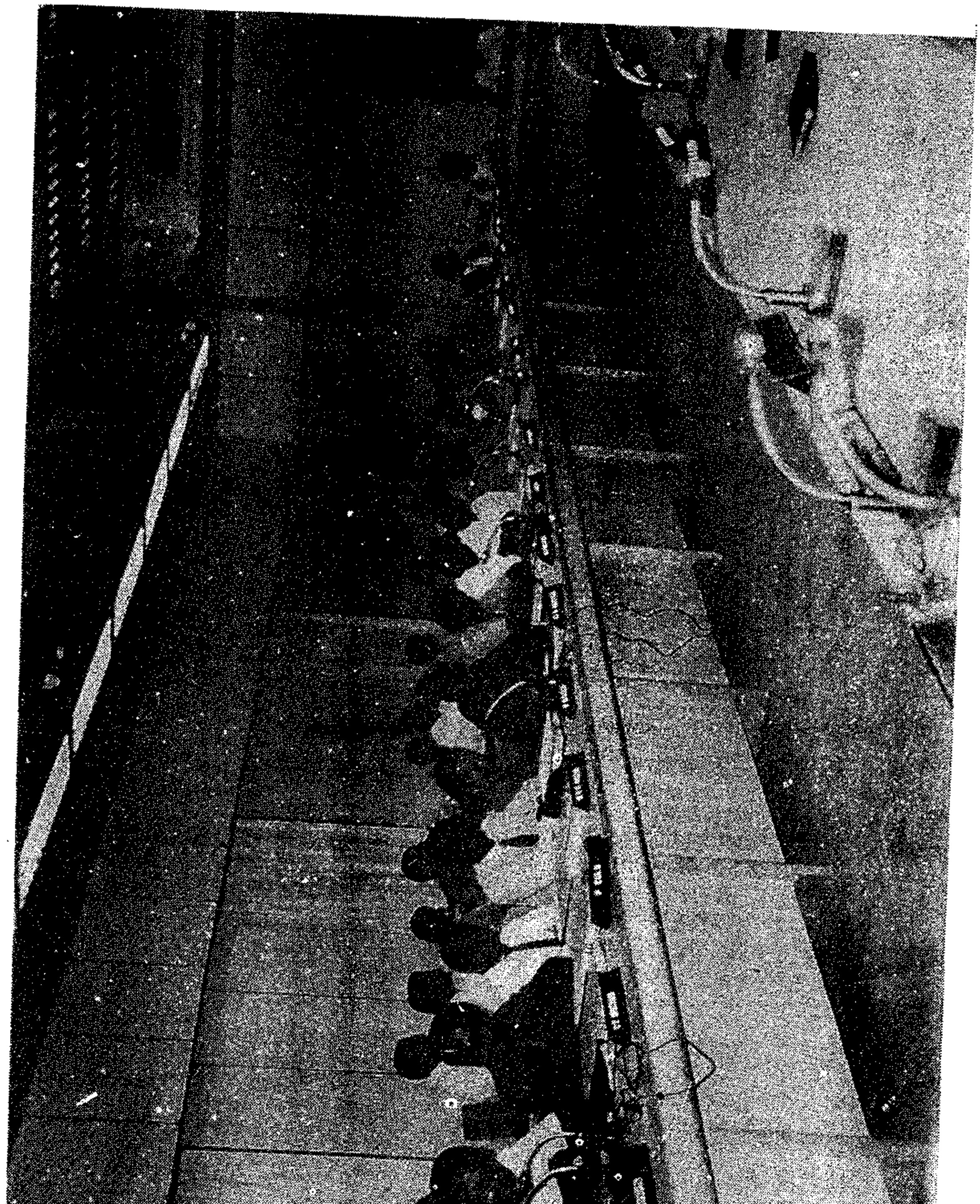


Fig. 30.7: Inaugural Session of International Training Programme on Audit of Scientific Departments (February 13 to March 28, 1989)

Fig. 30.8: Inaugural Session of International Training Programme on Audit of Public Utilities and Social Services (April 17 to May 29, 1989)

prevalent at the relevant point of time, while the contingent expenditure for day-to-day running of the programmes varied from Rs. 0.09 lakh in 1980 to Rs. 0.83 lakh in 1987/1989. Countries which were not qualified for assistance under any of these schemes participated on their own and met the expenditure towards boarding and lodging and also travel. They were, however, not required to pay any course fee or the cost on course material. The faculty for each programme represented a judicious mix of academic specialists, planners, administrators and auditors. It was drawn mostly from the senior officers of the Indian Audit and Accounts Department, who were either heads of offices or heads of departments, and distinguished members of other services or organisations who had worked on the executive, managerial, or specialist positions in activities connected with the theme of the topic selected for the programme. All the courses were appreciated by the participants, who found them very educative and useful.

Sixteen courses have been held up to November 1989 which were attended by 487 participants from 25 countries. Details of the programmes held, duration, number of countries along with the number of participants and number of faculty engaged are given below :—

Sl. No.	Programme Title	Duration	No. of Countries involved	No. of participants	No. of faculty and guest speakers
1	2	3	4	5	6
1.	Audit of Receipts	17th Sept. to 28th Sept. 1979	13	36	12
2.	Audit of Public Utilities	9th Nov. to 18th Dec. 1980	19	25	38
3.	Audit of Public Enterprises	25th Jan. to 19th Mar. 1982	20	29	46
4.	Audit of Receipts	7th Feb. to 19th Mar. 1983	18	21	32
5.	Audit of Rural Development Programmes	18th Oct. to 3rd Dec. 1983	21	28	53
6.	Audit of Public Enterprises	14th Feb. to 30th Mar. 1985	22	32	53
7.	Audit of Public Works	13th Jan.to 1st Mar. 1986	18	25	34
8.	Audit of Public Utilities and Social services	3rd Oct. to 16th Nov. 1986	19	30	28
9.	Audit of Receipts	20th April to 3rd May. 1987	19	29	22

1	2	3	4	5	6
10.	Audit of Transport Services	8th Sept. to 19th Oct. 1987	16	25	26
11.	Audit of Public Enterprises	11th Jan. to 22nd Feb. 1988	20	35	30
12.	Audit of Public Works and Projects	25th April to 4th June 1988	23	35	30
13.	Audit of Rural Development Programmes	19th Sept. to 3rd Nov. 1988	21	31	33
14.	Audit of Scientific Departments	13th Feb. to 28th Mar. 1989	15	30	50
15.	Audit of Public Utilities and Social Services.	17th April to 29th May 1989	20	35	42
16.	Audit of Receipts	25th Sept. to 6th Nov. 1989	24	41	24

The UNDP found the course material on audit of Public works and projects very comprehensive and appreciated the time, effort and care given to the material and felt that the training programme could be really useful to developing countries.

The ASOSAI has been publishing as its official organ a journal entitled "Asian Journal of Government Audit" annually from the year 1983. The Editorial Board consists of Comptroller and Auditor General of India as its Chairman and the Auditor General of Sri Lanka and the Chairman, Commission on Audit, Philippines as its members. The responsibility of printing and publishing the journal has also been entrusted to India. The Comptroller and Auditor General of India has nominated his deputy as its Editor and the Director (OM & T) as the Assistant Editor. Twelve articles/book reviews were contributed by India in the seven issues of the journal from 1983 to 1989. These included Tax Audit - An instrument of legislative change by Shri R. S. Gupta, Comprehensive appraisals of public enterprises by the Audit Board by Shri R. C. Suri, Role of SAI in setting standards and in reviewing internal management control by Shri R. K. Chandrasekharan, Audit of projects of commercial enterprises by Dr. G. V. C. Rao, Performance evaluation of coaching services in the Indian Railways - A case study, Auditing Wasteful practices by Shri S. Soundararajan, Social Audit and its relevance to Audit of Public utilities by Shri M. Parthasarathy, a Comparative review of the country papers presented by the participants of the International Training Programme of Audit of Public Enterprises held at New Delhi during January - February 1988 by Shri T.R. Krishnamachari, the craft of Audit by Shri S. Soundararajan and Powers of Supreme Audit Institutions in relation to Audit - An analysis by Shri T.R. Krishnamachari and two book reviews, one by Shri M. Prem Kumar on "Theory of Evaluation of accounting ideas" by Manchand Maloo and another by Shri S. Sampath Narayanan on "The Why, What and Whither of the Public Sector Enterprises" by Dr. Malcom Adiseshiah.

LIST OF ABBREVIATIONS

1	ADAIs	— Additional Deputy Comptroller and Auditor General
2	ASOSAI	— Asian Organisation of Supreme Audit Institution
3	ARABE	— Arabe
4	CAG	— Comptroller and Auditor General of India
5	DAI	— Deputy Comptroller and Auditor General
6	DDA	— Delhi Development Authority
7	INTOSAI	— International Organisation of Supreme Audit Institution
8	IDI	— Intosai Development Initiative
9	IAAD	— Indian Audit and Accounts Department
10	ILACIF	— Latin American Institute of Fiscal Sciences
11	ITEC	— Indian Technical and Economic Cooperation
12	OM&T	— Organisation Methods and Training
13	OFs	— Ordance Factories
14	SAI	— Supreme Audit Institution
15	SCAAP	— Special Commonwealth African Assistance Plan
16	UN	— United Nations
17	USA	— United States of America

SOURCES AND REFERENCES

1. Proceedings of the Conferences of Commonwealth Auditors General
2. Proceedings of the Congress of INTOSAI and UN-INTOSAI inter-regional Seminar
3. Proceedings of the Assemblies of ASOSAI
4. International Journals of Government Auditing published by INTOSAI Secretariat
5. Asian Journal of Government Audit published by the C&AG's Office
6. Brochures issued by Training Division of CAG's Office on International Training Programmes.

Index Vol I and II

Page No.

A

B

C

D

Page No.

J

K

L

M

N

The Comptroller and Auditor General of India 1947-1989 is an analytical history of the Indian Audit and Accounts Department of the post-independence era. Creation of CAG under the Constitution of India for auditing and accounting the transactions of the Union and the State Governments, held to be the most important Officer by the founding father of our Constitution, Dr. Ambedkar, the shaping of the statute governing his duties, powers and conditions of service, subsequent constitutional and statutory amendments, expanded scope and range of audit to suit the 'big' governments, as also the large number of public sector undertakings, wholly owned by them and the autonomous bodies and institutions financed by the various governments, .in the changing political scenario in the country, and the all round expansion of the Department are discussed in a vivid and lucid manner. Four decades' growth and development of IAAD under the stewardship of each CAG unfolds in four distinct volumes. The metamorphosis from regularity, accounting and compliance to efficiency, economy and effectiveness audit, reaching out to the new frontiers of value for money audit, as also the volume, content and sweep of reports prescribed and presented by him, - as many as 200—a marathon performance by any standards prevalent in the most sophisticated countries in the world, are brought out in sharp focus. Examination of his reports by the Committees of Parliament and State Leglislatures, their recommendations and decisions of various governments are dealt within extenso. The CAG of India is known for free, fair, equitable and neutral functioning in the federal set-up but this has not been without trials and tribulations, few of which have been disclosed for the first time, that makes the story interesting and sensational. Certain inadequacies and deficiencies thrown up in actual working of the institution are summed up at the end, for the benefit of the reformers, administrators, legislators and the people at large, so as to equip the institution to face the challenging tasks of the 21st Century.

ISBN 81-7024-321-1 (For Set)
ISBN 81-7024-322-X (For Vol. I)
ISBN 81-7024-323-8 (For Vol. II)

Rs. 900/- (For Vol. I and II)

R.K. Chandrasekharan joined the IAAS in January 1951. After serving in the IAAD for over ten years in different capacities, he was on deputation as DFA, CWP and Bokaro and later as Joint Financial Controller/Financial Controller, Bhilai Steel Plant. He went to the School of Business Administration in the Carnegie Institute of Technology, Pittsburg for studying Financial and Management accounting. After working as Director of Inspection and then as Dy. Secretary in the Ministry of Iron and Steel, he was again deputed as FA and CAO, IDPL. He was with UNDP/UNIDO as Industrial Economist to the Government of Somalia, where he introduced financial accounting, costing and reporting systems for the Public Sector Undertakings. On his return, he worked as MAB & DCA, Madras, AG, Tamil Nadu, Orissa and Karnataka for different spells. He was ADAI (Report) and later Deputy Comptroller and Auditor General of India. After retirement in January 1985, he worked for a while with Jha Commission and later as member of the Finance Commission for Karnataka Zilla Parishads and Mandal Panchayats. He has written several articles, essays, pamphlets, reports and books. He has widely travelled in India and abroad, participated in national and international seminars, workshops and study groups in Management, Accounting, Auditing and Reporting.

ASHISH

ASHISH PUBLISHING HOUSE

8/81, PUNJABI BAGH, NEW DELHI-110026

PHONE : 500581, 5410924