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AN
INTRODUCTION
TO
INDIAN GOVERNMENT ACCOUNTS
AND AUDIT



Issued under the Authority of the Auditor General in India.

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PREFACE.

The present Manual combines, for the first time, the "Introduction to Indian Government Audit" with the "Introduction to Indian Government Accounts". It is based in the main on the two earlier volumes which bore these titles, the former of which was prepared by Sir Frederic Gauntlett, K.C.I.E., K.B.E., I.C.S. (late Auditor-General in India), while the latter was originally drafted by Mr. L. E. Pritchard, (late Accountant-General), and subsequently revised by Sir Frederic Gauntlett.

Much of the material in the present Manual is taken direct from the second editions of the earlier volumes, with such modifications and omissions as are necessitated by the changes which have taken place since they were published.

At the same time the opportunity has been taken thoroughly to re-arrange the matter in such a way as to facilitate a consecutive study of the subject. Moreover, a considerable amount of new matter has been incorporated, the more important portions of which deal with the constitutional position of Audit, and incidentally of Accounts, under the reformed constitution given to India in 1919.

This Manual has been compiled at a time when further changes of far-reaching importance are expected. To postpone its issue until the changes are effected would probably have involved a delay of several years; while there is a certain advantage in making available at the present stage a summary of the position as it now stands in order to make it easier for Probationers,—and it is hoped for others also,—to grasp the significance of the impending changes as they take place.

This "Introduction" carries no authority beyond that of the Statutory Rules, Codes, etc., which it attempts to summarise. It may not, therefore, be quoted as carrying any authority in itself. It must be remembered that a summary of detailed Rules can only give a general conspectus of their effect; and it is incumbent upon readers to study the originals, to which this volume is intended to serve as a guide.

E. BURDON,
Auditor-General in India.

July 1st, 1930.

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INTRODUCTION TO THE FIRST EDITION

OF

AN INTRODUCTION TO INDIAN GOVERNMENT AUDIT.

THE primary object of this volume is to give probationers in the Indian Finance Department some idea of the principles underlying Government audit in India, and a summary of the more important rules to be applied in such audit.

It is hoped, however, that it may have a wider sphere of usefulness. The exposition of principle may be of value to senior audit officers as well as to probationers.

The volume may also be of some use to officers of other departments, especially to those who, as controlling officers, constitute an important link in the system of audit.

As a consequence of the primary object of the volume no attempt has been made to include in it any account of the system of work followed, or of the special rules applied, in military audit offices. But, generally speaking, that system of work is based on the principles described herein, and thus this volume may also be of some assistance to officers of the Military Accounts Department.

In regard to several matters the present volume deals with a transitional period. Thus the principles according to which re-delegation may be permitted, the resolution which will bring together all the financial powers of local Governments and the revision of the leave rules are all still unsettled. It is thought desirable, however, to issue the volume now for two reasons. Firstly, the need for it is deemed to be urgent, and secondly, it is felt that there can be no finality in such matters, and that by the time these questions are decided others will in turn be under consideration. Moreover a pioneer volume such as this will probably require revision at a comparatively early date, and, when the questions above mentioned have been

decided, it may be found desirable to issue a new edition in which any defects found in this edition can be rectified.

I desire to express my indebtedness to Mr. Dicksee's "Treatise on Auditing" and for the assistance which I have received from Mr. Pritchard in the description of the existing system of audit of receipts and of the verification of the original record, from Messrs. Scott O'Connor and Avery in connection with railway audit, from Messrs. Levett Yeats and Rajagopalan regarding post and telegraph audit and from Mr. Rajagopala Ayyar in the chapter dealing with expenditure on works.

I also acknowledge the close scrutiny to which the Financial Member the Hon'ble Sir William Meyer, and the Secretary to the Government of India in the Finance Department, the Hon'ble Mr. J. B. Brunyate, have subjected every portion of the volume, and their valuable criticisms which have led to the improvement of many of the more important sections.

M. F. GAUNTLETT.

INTRODUCTION TO THE FIRST EDITION

OF

AN INTRODUCTION TO INDIAN GOVERNMENT ACCOUNTS.

THIS is meant to be a companion volume to the Introduction to Indian Government audit. They have the same end in view, *viz.*, to present, in as simple a form as possible the general system of Indian Accounts and Indian Audit.

2. Mr. L. E. Pritchard is primarily responsible for Chapters I to IV and VII while the original draft of Chapters V and VI was prepared by the undersigned. The chapters have all been carefully scrutinised by selected officers, and it is hoped that the volume in its present form will be found a guide to those who have to trace their way through the intricacies of Indian Government accounts.

M. F. GAUNTLETT.

The 4th July 1914.

INTRODUCTION TO THE SECOND EDITION

OF

AN INTRODUCTION TO INDIAN GOVERNMENT AUDIT.

THIS volume has been thoroughly revised so as to embody all the changes in the rules relating to audit, the rule defining the financial powers of the Government of India and local Governments, rules relating to pay, leave and pension, etc., which have been brought about by the introduction of the Reforms, and the consequent changes in the Government of India Act and the Statutory rules issued under the Act. The primary object with which the volume was originally issued has been kept in view, and all the changes which have taken place since the issue of that volume, have been explained in a general manner so as to present a broad view of the whole situation.

My thanks are due to Rao Bahadur K. Balarama Iyer for the revision of the chapters relating to railway audit and audit of stores accounts, and to Mr. J. C. Mitra for the revision of the chapter on Posts and Telegraph audit.

M. F. GAUNTLETT.

The 25th May 1922.

INTRODUCTION TO THE SECOND EDITION

OF

AN INTRODUCTION TO INDIAN GOVERNMENT ACCOUNTS.

THIS volume has been revised, so as to incorporate all the changes in the system of Government accounts consequent on the introduction of the Reforms.

2. I am indebted to Mr. A. C. McWatters, Controller of the Currency, for the revision of Chapter VI.

M. F. GAUNTLETT.

The 20th May 1922.

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An Introduction to Indian Government Accounts and Audit.

PART I.

A Preliminary Survey of Accounts and Audit Systems.

CHAPTER 1.

The Purpose of Accounts and Audit.

1. *Subject matter.*—The object of this book is to give a broad idea of the activities of the “Indian Audit Department,” which term means “the officers and establishments subordinate to the Auditor General, which are employed upon the compilation and audit of accounts of Government transactions in India.” Before discussing the principles of that particular branch of accounts and audit with which this department deals, it is desirable to have a clear conception of the phrase “compilation and audit of accounts.”

2. *Accounts and transactions.*—The word “accounts,” in the financial sense, has been defined as statements of facts relating to money, or things having money value. The facts that are incorporated in accounting records are described as “transactions”.

3. In very ancient times accounts were kept by means of tallies and chalk-marks; but for many centuries it has been the custom to reduce them to writing and to record them in books.*

4. *Accounting.*—A mere chronological register of pecuniary transactions (commonly called a Cash Account) was soon found insufficient. From such a register a man could not tell, without going through every item, how he stood in relation to his various customers, and whether his business was profitable or not. It became necessary that his transactions should also be classified under various heads, as for example the names of various customers dealt with, or of various articles dealt in; and that the results of transactions under these heads should be arranged in such a form as to show clearly not merely the significance of each separate transaction but also the combined effect of any desired series of transactions. The process through which these ends are effected is called “accounting”.*

* See page 1 of Book-keeping by Hamilton and Ball.

5. *Compilation*.—To compile is to compose and arrange materials collected from other records. As will be explained later, the initial accounts of Government transactions in India are prepared by the authorities through whom the transactions occur, those authorities being unconnected with the Indian Audit Department. So far as accounts are concerned, the duty of the Audit Department is to compile, under different heads prescribed for Government account, those initial accounts which under the rules are required to be rendered to it for compilation, and to arrange the results of transactions under those heads in such a form as to bring out the combined result of all the transactions which occur during a given period. It has also to compile the Finance and Revenue Accounts of India, which embody a summary of the accounts compiled both by the Department itself and by other agencies and include the results of the whole of the Government transactions arising both in India and England.

6. *Audit*.—The functions of Audit are essentially different from those of Accounts. Of the meaning of the word "audit," an excellent explanation can be given by quoting the following portions of a translation of Sir Walter Henley's "Tretyce off Husbandry," a work which dates back to the thirteenth century.*

"Buy and sell in season through the inspection of a true man or two who can witness the business, for often it happens that those who render accounts increase the purchases and diminish the sales. Have an inspection of account, or cause it to be made by some one in whom you can trust, once a year, and (have a) final account at the end of the year. If there is any (money), let it be raised and taken from the hands of the servants If arrears appear in the final account, let them be speedily raised Look into your affairs often, and cause them to be reviewed, for those who serve you will thereby avoid the more to do wrong, and will take pains to do better. In the first place he who renders accounts ought to swear that he will render a lawful account and faithfully account for what he has received of the goods of his lord, and that he will put nothing in this roll save what he has to his knowledge spent lawfully, and to his lord's profit And then, if he has rendered account before, see how it compares; and if he is found in arrears of money, corn, or stock, put the whole in stated money valuation, and charge it at the commencement of his roll At the end of the year, when all the accounts shall have been rendered of the lands, the issues, and all expenses of the manor, take to yourself all the rolls, and by one or two of the most intimate and faithful men you have, make very careful comparison with the rolls of the accounts rendered, and of the rolls of the estimate of corn and stock and according as they agree you shall see the industry or negligencé of your servants and bailiffs."

* I am indebted to Dicksee's "Treatise on Auditing" for this quotation.

“The lord of the manor ought to command and ordain that the accounts be heard every year, not in one place but on all the manors, for so can one quickly know everything and understand the profit and loss The auditors ought to be faithful and prudent, knowing their business, and all the points and articles of the account in rents, outlays and returns of stock. And the accounts ought to be heard at each manor to know the profit and loss, and then can the auditors take inquest of the doings which are doubtful, and hear the plaints of each plaintiff and make the fines. The steward ought to be joined with the auditors, not as head or companion of the account, but as subordinate, for he must answer to the auditors on the account for his doings just as another. It is not necessary so to speak to the auditors about making audits, for they ought to be so prudent, and so faithful, and so knowing in their business, that they have no need of others’ teaching about things connected with the accounts.”

7. Special attention is invited to the clause which says that the lord of the manor ought to command that the accounts be *heard* every year. This shows that the word auditor is derived from the Latin “auditor,” the ancient practice being that the parties whose accounts were audited should attend before the auditor and vouch them orally. The practice was perhaps necessary in bygone days when few people could read or write. It is possible even that the auditor himself could not read but heard the accounts read out by the clerks. The men responsible for the accounts vouched for the accuracy of the entries, and the auditor being specially chosen for his prudence, faithfulness and knowledge of the business, was able to satisfy the lord of the manor that the accounts rendered accurately portrayed the exact state of affairs.

8. *The Auditor*.—“Audit” is therefore an instrument of financial control. In its relation to commercial transactions, it acts as a safeguard on behalf of the proprietor (whether an individual or a group of persons) against extravagance, carelessness, or fraud on the part of the proprietor’s agents or servants in the realisation and utilisation of his money or other assets, and it ensures on the proprietor’s behalf that the accounts maintained truly represent facts, and that expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an “auditor.”

9. It is essential that a similar watch should be maintained over the financial transactions of a Government, and that the agency employed for the purpose should be independent of the agents or servants of Government who are entrusted with the realisation and utilisation of public money or other assets. The task is entrusted in India to the Indian Audit Department. So far as its audit duties are concerned, the position of the Indian Audit Department in relation to Government transactions in India is exactly the same as that of an “auditor.” It must ensure that the accounts maintained truly represent facts, that the rules and

orders framed by competent authority have been obeyed, and that the expenditure has been incurred with due regularity and propriety ; and it must bring to the notice of competent authority any irregularity or impropriety in connection therewith.

10. Before leaving this introduction to the subject, attention may be drawn to the way in which the principles enunciated 700 years ago in the extract quoted in paragraph 6 still apply, as will be shown in this Manual. Prompt payment of money into the treasury, the strict following up of arrears, the necessity for accounts accurately portraying the facts, the value of checking the accounts and of conducting local inspections, periodical stock verification and the check of stock with the accounts, were fundamental principles then as they are to-day. Principles which have held good for so long a period must contain the essence of importance.

CHAPTER 2.

Indian Government System of Accounts and Audit, and Commercial Systems.

(A.) ACCOUNTS.

11. *The difference between Government and Commercial functions.*—The principles of Commercial and Indian Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a Commercial concern is to trade, that is to take part in the production, manufacture or interchange of goods or commodities between different groups or individuals and thereby to make profit, that of a Government is to govern a country and in connection therewith to administer the several departments of its activities in the best way possible.

12. *The principles and methods of Commercial accounting.*—A non-Government Commercial concern deals primarily with the utilisation of Capital for the purpose of making a profit ; and it is interested to see at intervals how it stands in relation to its debtors and creditors, whether it is gaining or losing, what are the sources of its gain or loss, and whether it is solvent or insolvent.

13. In order to obtain ready answers to these questions the concern has to keep a system of detailed accounts. In respect of each person dealt with, each class of asset held, each article dealt in, and each department of its activities, it maintains a separate account so that the result of the transactions in each case may be ascertained. It then becomes necessary for it to collect the results of all these accounts in one place in order to record the assets and liabilities under different heads and finally to prepare the manufacturing, trading and profit and loss account, and balance-sheet, which shall show what is the gain or loss of the concern as a whole, and whether it is solvent or insolvent.

14. It is the generally accepted practice in the commercial world to maintain account books by the Double Entry system, which is based on the fact that in every transaction or financial change two parties or accounts are involved, one giving and the other receiving. Under that system every transaction, therefore, requires two entries in the books, one against the party or account giving and the other against the party or account receiving. Further, if the concern is a manufacturing one, it has also to maintain sets of books for (a) costing, and (b) stores accounting, in order to ascertain as regards (a) the cost of production of each article so that its selling price may be fixed accordingly, and (b) as regards (b) that there is an efficient system of stores control.

15. *The principles of Government accounting.*—The activities of a good government in any country are determined by the needs of the country. The main branches of its activities being known, it is a matter for decision what expenditure will be necessary during any year in carrying out these activities. After a decision has been reached on these points it becomes necessary to determine how to raise sufficient money to meet that expenditure

16. The classification in the accounts of the transactions of the Indian Government is determined firstly by the administrative classification of the activities and secondly by the classification of the nature of the transactions. The accounting is therefore more elaborate than that followed in commercial accounts. But (leaving out of consideration for the present the accounting of expenditure met from Loans, and certain subsidiary and technical accounts, which will be considered in Part V of this Manual) the immediate objective of Government accounting is not to ascertain the gain or loss on the transactions of the Government as a whole in carrying out its activities. The method of budgeting and accounting under the Service Heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates. The accounting methods adopted for commercial concerns, and the preparation of Manufacturing, Trading and Profit and Loss Accounts, and a Balance Sheet, in the commercial sense, are therefore unsuitable and unnecessary. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the latter. Similarly in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts Government determines (a) whether it will be justified in curtailing or expanding its activities, and (b) whether it can and should increase or decrease taxation accordingly.

17. *The purpose of Government and Commercial Accounts.*—The Government Accounts are therefore designed to enable Government to determine how little money it need take out of the pockets of the taxpayers in order to maintain its necessary activities at the proper standard of efficiency, while non-Government Commercial Accounts are designed to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit-earning standard in the concern.

18. *Commercial Enterprises conducted by Government.*—There are, however, certain enterprises of Government which are conducted on commercial lines, and in these enterprises the essential formalities of

commercial accounts are strictly observed. In those cases in which the commercial books of the enterprises are kept outside the regular Government Account, a link is maintained between the two to show how much is coming into Government revenues from each enterprise and how much is spent by Government, either as capital or revenue expenditure, in carrying on its activities.

19. *The method of Government Accounting.*—The mass of the Government accounts are kept by single entry. There is however, a portion of the accounts which is kept on the double entry system, the main purpose of which is to bring out by a more scientific method the balances of accounts in regard to which Government acts as a banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of the single entry compilations as well, but their accuracy can be guaranteed only by a periodical verification with the balances brought out in the double entry accounts.

(B) AUDIT.

20. *Principles of Audit.*—As stated in paragraphs 8 and 9, audit should be conducted by an agency independent of the authority charged with the duty of carrying on the business and of maintaining accounts of the transactions which pass through his hands. This principle is strictly observed in Commercial audit, although when auditing small concerns the auditor often finds the accounts so badly prepared as to render it necessary for him to build up a very large portion of the fabric of the accounts from the initial records. This work is, however, incidental to and not an essential part of his duties as an auditor.

21. *Purpose and procedure of Commercial Audit.*—In Commercial audit at the present day the main object is to present before the proprietor or proprietors of the business an accurate statement of the position of affairs together with a profit and loss account showing how this position has been reached. In the case of Companies the duty of an auditor is mainly in the interest of the shareholders, who are practically sleeping partners in the business. The directors are the active partners; and the auditor on behalf of the sleeping partners—the shareholders—has to examine the accounts and the balance-sheet prepared by the directors and to report to the shareholders whether in his opinion those accounts are correct, and fully and fairly disclose the position of affairs, or in what respects they fail to do so.

22. On pages 3 to 5 of Dicksee's Auditing will be found a set of instructions to commercial auditors. The procedure of commercial audit as there detailed may be summarised briefly thus :—

The *first* step is to ascertain the authorities competent to sanction expenditure, to receive or pay money, or to incur liabilities, on behalf of the firm.

The *second* is to understand the system of accounts followed.

The *third* is to check as far as possible the accuracy of the original record, namely, the cash book.

The *fourth* is to see that all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authorities.

The *fifth* is to investigate unusual items.

The *sixth* is to check the compilation of the accounts from the original records and to suggest corrections in the classification of transactions.

The *seventh* is to review the procedure of stock-taking and of pricing the goods on hand.

The *eighth* is to check or prepare the financial results, that is the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, which will indicate accurately the progressive position of affairs. This necessitates also the investigation of depreciation of property (buildings, machinery, furniture, etc.), the soundness of investments, debts due to the firm, and the correct allocation of expenditure to Capital Account.

23. Difference between a Government and a commercial firm necessitating differences in audit procedure.—Unlike commercial audit, the audit of the transactions of the Government of India is entrusted entirely to Government officials; and this difference has influenced largely the system of audit adopted. As will be explained in Chapter 12, the check of receipts is in most cases left to the departments responsible for the collection of revenue. Similarly the check of stores and stock is, as will be explained in Chapters 18 and 31, almost entirely left to the departments in whose custody they are. The audit of expenditure in India is, however, performed mainly by the Indian Audit Department which is independent of the spending departments. This department is, as has already been stated, also responsible for the compilation of the major portion of the accounts which it audits. The whole of the work of auditing the expenditure is not, however, conducted by this independent department, but, as explained in paragraph 25, part of the work incidental to audit is also performed by the spending departments.

24. India is so vast a country and Government activities are so various that it is impossible for independent Audit Officers, working (as they do) almost entirely at headquarters, to be as closely in touch with the facts to which the accounts refer as the officers of the department in which the revenue is realised and the expenditure is incurred.

25. Thus, the Audit Officer has no personal knowledge of the quantity or quality of the work done by a contractor, of the quantity or quality of goods supplied by a supplier, of the number of coolies employed each

day on a work, or of the agreement between the stores accounts and the stock of stores. The payments are in many cases made at treasuries the officers in charge of which are not members of the Audit Department ; while in others the bills are either presented to, or are prepared by, disbursing officers of other departments. Thus the preliminary examination of bills which are paid at treasuries or by disbursing officers of other departments is primarily left to the Treasury Officers, or to officers of those other Departments. The exact nature of the work done by these agencies will be discussed later when we attempt to deal with the details. For the present it is sufficient to remember that under the Government system of audit the executive officers of the spending departments, as well as officers in charge of treasuries, take an important share in the scrutiny of expenditure.

26. Another point of difference between commercial and Government audit is that, whereas the former is more often than not periodical, the latter is almost entirely continuous. This is due to the greater volume of work to be done and to the fact that a large part of it is concerned with personal claims which have to be finally adjusted with the utmost promptitude.

27. *Procedure of Government Audit as compared with Commercial Audit.*—It is obvious that these differences in conditions must alter in detail the system of audit ; and it is interesting to compare with the main factors of commercial audit, set out in paragraph 22 above, the main objects of Government audit, which, as set out in Articles 123, 130, 137 and 138 of the Audit Code, are to ensure--

- (a) that the expenditure has been incurred by an officer competent to incur it ;
- (b) that the expenditure has received the sanction, either special or general, of the authority competent to sanction it ;
- (c) that, if it is votable expenditure, it is covered by a grant sanctioned by the legislature ;
- (d) that, if it is non-votable expenditure, there is provision of funds, sanctioned by competent authority, to cover it ;
- (e) that the expenditure does not involve a breach of any of the canons of financial propriety laid down in Rule 11 of the Auditor General's Rules ;
- (f) that payment has, as a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible ;
- (g) that the charge is correctly classified, and that, (as in the case of Public Works and Forest accounts) if a charge is debitable to the personal account of a contractor, employee or

other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account ;

- (h) that all sums receivable are duly paid to the proper officer and brought to credit by him ;
- (i) that stores are priced with reasonable accuracy, and that the rates are reviewed from time to time and revised when necessary ; and
- (j) that stocks are counted and otherwise examined periodically, to ensure that the balances on hand represent the quantities as well as the values borne on the account books.

28. This comparison is made in detail below :—

- (a) *The first and fourth steps of commercial audit,—to ascertain the authorities competent to sanction expenditure or to receive or pay money, etc., and to see that the transactions are in accordance with the minutes or orders.*

These correspond with clauses (a) to (d) of paragraph 27. In Government accounts the minutes and orders are represented by the Government of India Act, the Audit Resolutions, the authorised Codes, and the resolutions and orders of the Central Government, local Governments and other authorities. The volume of such orders is immense and this portion of audit looms so large that it tends to overshadow all the other branches.

- (b) *Second step of commercial audit,—understanding the system of account followed.*

It is unnecessary to put this forward as a main object of Government Audit, because in India the form in which the initial accounts should be kept and that in which the accounts should be rendered to the Audit Department are largely determined by the agency which audits them and, after a certain point, also compiles the major portion of them. The system of accounts followed is described in the Audit Code and the relevant Account Codes.

- (c) *Third step of commercial audit,—check of the accuracy of the original record.*

Clause (f) of paragraph 27 may be held to correspond with this. But, as stated in paragraphs 24 and 25, the check of the accuracy of the original records is left to a great extent to the executive officers of the spending departments, and this check is supplemented by a test-audit at regular intervals by officers of the Audit Department.

- (d) *Fifth step of commercial audit,—investigation of unusual items.*

This corresponds with clause (e) of paragraph 27.

(e) *Sixth step of commercial audit,—check of the compilation of accounts and of the classification of transactions.*

Checking of the compilation of accounts is not specifically mentioned in the list of objects of Government audit. As stated in clause (b) of this paragraph the greater number of the accounts are, after a certain point, built up by the auditing agency itself and the preliminary accounts are checked by the Audit office as explained in clause (c). The compilation made in the Audit office is test-checked within the department; and in the cases where accounting is separate from audit and the compilation of accounts is left to the administrative departments, every process of compilation leading up to the final account is test-checked by the Audit Department.

In Government audit the classification is thoroughly checked by the Audit Department where that department is responsible for the compilation of accounts, and is test-checked where compilation is left to the Administrative Department.

(f) *Seventh step of commercial audit,—check of the accuracy of the accounts of stores or goods.*

This corresponds with clauses (i) and (j) of paragraph 27.

(g) *Eighth step of commercial audit,—the preparation of the Manufacturing, Trading and Profit and Loss accounts, and the Balance Sheet, necessitating the investigation of depreciation of property, the soundness of investments, debts due to the firm, and the correct allocation of expenditure to Capital Account.*

In the ordinary accounts of Government there is nothing to compare with these accounts which form the summary of the financial transactions of a commercial firm during a certain period. Its place may be said to be taken by the annual Budget Statements and by the Finance and Revenue Accounts of the Government of India. However, in the case of Government undertakings of a *quasi-commercial* character, the financial results are ascertained and reviewed outside the regular accounts through *pro formâ* accounts which are prepared separately for the purpose, and these *pro formâ* accounts are prepared on a strictly commercial basis.

In the regular Government account the correct allocation of expenditure to revenue or capital heads of account is checked by the Audit Department.

29. Mr. Dicksee in his work on Auditing states that the objects of audit may be said to be threefold :—

- (1) detection of fraud ;
- (2) detection of technical errors ;
- (3) detection of errors of principle.

Here again due allowance has to be made for the differences in conditions between the Indian Government and a commercial firm, and the differences between the agencies which prepare and audit the accounts in the two cases. Thus in Government audit there is little scope for detection of errors of principle (that is, in the system of accounts adopted) as the responsibility for determining or advising as to the form in which accounts should be kept devolves upon the Auditor General. The other two objects are, however, sufficiently provided for under the Government system as explained below.

30. As regards the detection of fraud, it must be remembered that, as explained in paragraph 25, part of the work in connection with the scrutiny of expenditure, is entrusted, for the sake of convenience and economy, to the officers of the spending departments. A fraud in respect of expenditure would in some cases indicate a payment to which the payee is not legally entitled, or in others a payment made in respect of a claim which is not in accordance with the facts. Under the existing arrangements the certification as to the initial facts is left to the executive officers, and the Audit Department verifies a certain percentage of them at local inspections. Most of the frauds are thus checked or detected in the course of the scrutiny by the executive officers. The Audit Officers also render valuable assistance in indicating directly or indirectly to the executive officers defects or irregularities which require their attention. This subject will be discussed in detail in Chapter 10, and it will suffice to state here that the checks prescribed for executive officers, supplemented by occasional local audit and continuous central audit, sufficiently provide for the detection of fraud in the Government system of audit. As to the detection of technical errors, the bulk of the work of the Audit offices used to fall under this category; and it was one of the chief complaints against the Audit Department that this had been their main work.

31. It is apparent that this was not altogether a fair criticism inasmuch as it overlooks the following facts:—

- (a) The officers of the Department have moulded and still mould the form of the accounts and thus prevent errors of principle.
- (b) Wherever they have started work in a fresh field, as in Local Fund audit, their pioneer work has been very valuable.
- (c) Their indirect work in the prevention and detection of fraud is important.
- (d) The enormous number of objections raised is due to—
 - (i) the extreme elaboration of the rules to be applied in audit;

-
- (ii) the mistakes made in the preparation of bills ; .
 - (iii) lack of intelligence or undue rigidity on the part of the auditor.

Critics ought not to forget, as they sometimes do, that the officers of the Department are not responsible for cause (ii), while the ultimate responsibility for cause (i) rests with Government even though they may have sought the advice of officers of the Audit Department in framing the rules. As regards cause (iii), it is important that officers of the Department should rectify it in so far as they are empowered to do so ; but the "rigidity" of which complaint is still made is often due to the rigid character of Statutory Rules which admit of no relaxation otherwise than by a revision of the Rules themselves.

32. The Constitutional Reforms of 1919, which invested Audit with a higher responsibility and a greater power of initiative, enabled Audit Officers to devote more attention to the broad principles of legitimate public finance and to the manner in which the various executive officers undertake their more important financial responsibilities.

CHAPTER 3.

Brief Historical Account of Audit and Accounting in India. The Functions and Position of the Auditor General.

33. Before proceeding to deal with the subjects discussed in this book, it is necessary to give a brief historical sketch of the origin and growth of the Indian Audit Department and its functions and position in the field of the Constitutional Reforms introduced by the Government of India Act of 1919.

34. *The Position before 1857.*—Up to the time of the Mutiny of 1857 the system of audit and accounts was wanting in cohesion. Each Presidency had its own Accountant General and staff; and, in the absence of uniformity of classification in the accounts prepared in each Presidency, there was no proper system in India for compiling the general accounts of India as a whole. The functions of audit and accounts were scattered. Fixed charges such as salary bills were preaudited by Civil Paymasters before payment. Payments were made by Collectors of Land Revenue, who rendered classified accounts to the Accountant, Revenue Board, who sent them on to the Accountant General, an officer who was in charge of Ways and Means and compiled the account figures for the Presidency. Some post-audit was done, in respect of debt and deposit heads by the Accountant General of the Presidency, and in respect of expenditure by officers known as Civil Auditors, who were officers of the Finance Department of the Central Government.

35. *The Reforms of 1860.*—The first reform of this system was initiated by the Court of Directors in 1856, and by 1860 was carried out in the following manner. In the first place the procedure prevailing in the Presidencies was assimilated, a general department of audit and account was formed for the whole of India, and the post of "Accountant-General of the Government of India" was created, who was afterwards to become Accountant and Auditor General, Comptroller General of Accounts, Comptroller and Auditor General, and lastly Auditor General in India. A budget system was introduced, and following the English precedent an Audit Board was established with the prime object of conducting a monthly appropriation audit which should form the basis of a more effective administrative control over actual as compared with estimated expenditure.

36. *The Reforms of 1865.*—The Board, however, did not last long. In 1865 an enquiry was conducted into the constitution and mode of conducting the business of the Finance Department and of the offices of accounts attached to that department. As a result of the enquiry the Board of Audit was abolished. Departmental accounts of receipts.

such as the accounts of Land Revenue, were rendered not to the accounts officers but to the executive authorities in charge, who were to be responsible generally for the audit of receipts. Similarly, departmental officers were to pass charges, subject to post-audit, instead of relying on Paymasters to pass charges for them; the Paymasters disappeared, and so also did pre-audit except at headquarters. Accounts work was divided, the primary stage being assigned to treasuries, and the final stage to the accounts office. The work of audit, which had been scattered, was centralised in the Accountant General's office in each Presidency; and the head of this audit and account department was designated Comptroller General of Accounts, his duties being:—

- (i) the management of public debt;
- (ii) the supervision of the accounts of those treasuries which were immediately under officers subordinate to the Government of India; and
- (iii) the administration of the central office of accounts, this item covering the whole duties of the Auditor General as exercising appropriation audit.

Thus from this time the foundations of the present combined audit and account system were laid.

37. *The Reforms of 1870 and subsequent dates.*—In 1870, the management of the Paper Currency was transferred from the officers of the Mint Department, to whom it had formerly been entrusted, to the Accounts Department, and the Comptroller General of Accounts became the Head Commissioner of the Department of Issue of the Government Paper Currency. In 1880, the Appropriation Report was introduced; and the title of the Comptroller General was changed to Comptroller and Auditor General. In 1882, he was associated with the Financial Secretary in the work of checking and compiling the budget and the Financial Statements.

38. Between that date and 1914 the status of the office remained unchanged, but various changes took place in the duties attaching to it. Thus the detailed work of the Public Debt Office was made over to the Bank of Bengal, though the general supervision and control of this work remained with the Comptroller and Auditor General; and to his work were added the new duties imposed by the Indian Securities Act, and the Administrator General's Act, and also the custody of Securities lodged with Government Officers.

39. The duties of the Comptroller and Auditor General in relation to Accounts and Audit were also very largely increased by the addition to his work and responsibilities resulting from:—

- (a) the amalgamation of the Public Works Accounts with the Civil Accounts;

- (b) the audit of the books of Government Presses ;
- (c) the charge of the accounts of the Military Works, Service ;
and
- (d) the transfer to his control from that of the Railway Board
of the Railway accounts and audit.

In each of these cases the underlying cause of the change was the realisation that it is undesirable to allow any Executive authority to exercise control over those officers to whom is entrusted the duty of scrutinising the regularity and propriety of its financial transactions. The need for such a change arose not merely on theoretical grounds but also as a result of certain concrete cases in which attempts were made to bring undue pressure to bear on officers entrusted with accounting and audit duties. The importance of this point is further discussed in Chapter 4.

40. The cumulative effect of all these changes was that, while the complexity and importance of his accounting and audit duties and responsibilities were largely increased, the Comptroller and Auditor General was in addition burdened with such multifarious duties as the administration of the Currency Department, the administration of Coinage, the control of Ways and Means, the custody of Securities, and the disposal of Public Debt questions.

41. It became increasingly evident that the concentration in one office of responsibilities so numerous, varied and complex imposed an impossible strain upon the incumbent, and at the same time was not in the best interests of Government.

42. The question was carefully reviewed both in India and in England ; and, as a result of a detailed discussion of the matter between the Government of India and the Secretary of State, the latter in his despatch No. 149 Finl., dated 28th November 1913, sanctioned the creation of the post of the Controller of the Currency, transferring to him the duties connected with the Mint and Assay, Paper Currency, Council Bills, Exchange, Gold Standard Reserve, Rupee Loans, Public Debt Offices, Ways and Means, Treasury Transfers and Deposit, and custody of Securities. Thus henceforth the Comptroller and Auditor General remained responsible solely for accounts and audit. It may be mentioned here that, although the Comptroller and Auditor General was relieved, among other things, of all responsibility in connection with the Currency and Resource work, certain executive duties relating to these subjects were for a time left to be performed by the Accountants General of provinces, who, in this respect, were answerable to the Controller of the Currency.

43. *The Position under the Reforms of 1919.*—This position remained unaltered till the date of the Reforms, of 1919. With the Reforms the

office of the Auditor-General in India, as he has since been designated, was for the first time statutorily recognised under Section 96 D(1) of the Government of India Act, and in audit matters he was made by statute independent of the Government of India. He is also now recognised as the administrative head of the Indian Audit Department, subject to dependence in some respects upon the Government of India, and has been given extensive powers in regard to Government accounting. Even before the Reforms the Auditor General was independent of the Government of India in audit matters; and, although the Governor General had the right of appointing him and removing him from office, in both cases the approval of the Secretary of State in Council had to be obtained. This position was, however, secured by executive orders issued by the Secretary of State, whereas now there is a statutory recognition of the special features and prerogatives of his office by a formal provision in the Government of India Act itself. By 1921, the remaining duties unconnected with accounts and audit, namely those in connection with Currency and Resource work, were completely taken away from his department, although in Madras and Burma the Accountants General still function as *ex-officio* Deputy Controllers of the Currency.

44. The functions of the Auditor General in India are defined and prescribed in "The Auditor General's Rules". These are Statutory Rules which are made by, and may be amended by, the Secretary of State for India in Council under Section 96 D(1) of the Government of India Act of 1919. These rules detail:—

- (a) The conditions of the Auditor General's employment.
- (b) His duties and powers as regards Audit.
- (c) His duties and powers as regards Accounts.
- (d) His administrative powers over the Indian Audit Department.

45. All audit and accounts instructions issued by the Auditor General in the form of code rules or otherwise derive their authority from the Auditor General's Rules. As will appear later, the present Manual is concerned primarily with the subject matter of headings (b) and (c) of the preceding paragraph.

46. *The Functions and Powers of the Auditor General in regard to Audit.*—In regard to audit, the Auditor General is now responsible for the efficiency of audit of all expenditure in India from the revenues of India, while in the case of receipts, and stores and stock, he has to perform such audit as may be required by the Governor General in Council. To give him an independent position in this respect he has been constituted as the final audit authority in India and has been given powers

“to frame rules in all matters pertaining to audit particularly in respect of the method and extent of audit and the raising and pursuance of objections,” subject in both cases to any general or special orders of the Secretary of State in Council; and also to enforce his audit objections subject to certain conditions. Provision has also been made in the Auditor General’s Rules that, on the Appropriation Accounts (whether prepared by his staff or by other accounting authorities), Reports showing the results of audit shall be prepared annually by the proper Audit authorities and submitted to the Auditor General. The Auditor General forwards these Reports, with his comments thereon, to the local Governments concerned or to the Governor General in Council, as the case may be, and through them to the Public Accounts Committees of the respective legislatures. He also prepares, on the basis of these Reports, his own annual Review of the results of the audit conducted by his staff, and submits it through the Governor General in Council to the Secretary of State for India.

47. *The Functions and Powers of the Auditor General in regard to Accounts.*—In account matters, the responsibility for the compilation of the Finance and Revenue Accounts of the Government of India has been laid upon the Auditor General. The form of these accounts is prescribed by the Secretary of State in Council, but the Auditor General determines the form in which the accounts of both Central and Provincial Governments are to be maintained by the Audit Department, and in which officers rendering accounts to the Indian Audit Department are to render such accounts, and to maintain the initial accounts from which the accounts so rendered are compiled or on which they are based. The power to determine the classification of an item under a major or minor head in the public accounts is also reserved to the Auditor General. He is, however, under obligation, as a natural consequence, to supply, or to arrange that officers subordinate to him shall supply, any information required by the Governor General in Council or by local Governments which can be derived from the accounts maintained by his staff, and to render such assistance as may be required by the Government of India or the local Governments in the preparation of their annual budgets.

CHAPTER 4.

The Relation of Audit to Accounts.

48. *Former Proposals to separate Audit from Accounts in India.*—We have already seen, in paragraphs 8, 9 and 20, why it is desirable, in the interests of honest and sound finance, that business transactions should be subjected to the audit scrutiny of an agency independent of that charged with the duty of maintaining the accounts of those transactions. Theoretically the same principle should apply equally to Government transactions in India. In practice, however, as explained in the brief historical summary given in Chapter 3, a system has grown up in India under which the accounts of transactions are maintained and audited by one and the same agency, the head of which is now independent of the authorities responsible for the transactions. Before 1913 the Comptroller and Auditor General was, even in audit matters, subordinate to the Government of India whose accounts he audited; but from that date a partial independence of his position in this respect was established by the executive orders of the Secretary of State; and with the passing of the Government of India Act, 1919, the full independence of his position as an auditor was statutorily recognised. It may now be said that the procedure generally in force provides a complete and independent audit of the transactions themselves, but no audit at all of any but purely initial accounts.

49. Before the passing of the Act of 1919 proposals were put forward on four separate occasions for the adoption of changes which would have the effect of making applicable to Government transactions in India the theoretical principle that audit should be independent of the accounting authorities. The *first* proposal was made in 1880 by the India Office Committee appointed to enquire into the system of Military accounts in India; the *second* by the Secretary of State himself in 1889, when the question of his power of control first came under discussion; the *third* in 1900, by the Royal Commission on the Administration of Expenditure in India; and the *fourth* by the Secretary of State again in 1913, in connection with the proposal to relieve the Comptroller and Auditor General of those of his duties which have since been transferred to the Controller of the Currency.

50. *The Theory of the Independence of Audit.*—These discussions were on each occasion somewhat confused by a failure to distinguish between the Comptroller and Auditor General's independence of the accounting authorities and his independence of the authorities whose transactions are under examination. Though the two questions have a bearing on each other, they require separate consideration. The theory that audit should be independent of the authorities responsible

for the transactions is based on the proposition that the conditions of an auditor's office should enable him to discharge, without fear or favour, his duty of scrutinising the financial actions of various authorities, and that he is not free to do so if he is dependent on one of those authorities whose orders he may have to challenge.

51. The financial powers of authorities in India were, before the Reforms, derived solely from the Secretary of State. They are now derived from the Secretary of State and from the Government of India Act. The power of voting money, given to the Central and Provincial Legislatures by the Act of 1919, would be valueless unless the Legislatures were assured that the Executive is spending the voted money for the purposes for which it was voted. Even therefore if one were to set aside the possibility of an auditor finding it to be his duty to challenge an abuse of their position by high officials in applying public money to objects the utility of which might be open to serious question from the point of view of the public, it must be evident that the control of the Legislatures would be merely nominal if they were not assured of a powerful and independent audit, free to bring to their notice diversions of voted funds without interference or influence from the Executive. It undoubtedly strengthens the hands of the Government of India and the local Governments also to be in a position to point to an audit authority over which they have no executive influence or control.

52. The true value of an audit independent of the executive is therefore not to be gauged by the irregularities which it actually discovers, but by the certain effects of the knowledge that the auditor can and will, without fear or favour, report them if they come to his notice. That knowledge constitutes in itself the most effective security against irregularity.

53. *Partial Independence of the Comptroller and Auditor General from 1913.*—On grounds which differed on each occasion, none of the earlier proposals to separate audit from accounts was found to be acceptable, although some advance was made in the direction of releasing audit from control by the executive. Indeed, in 1913 the Secretary of State reached the definite conclusion that the Comptroller and Auditor General should be independent of the Government of India to the extent necessary for the proper discharge of his audit duties, while remaining under the orders of the Government of India in account matters. This position continued up to the time of the Reforms of 1919.

54. *The Auditor General's Responsibility for Accounts as well as Audit under the Reforms of 1919.*—The question of separating audit from accounts, although it had been broached on so many previous occasions, did not come under detailed consideration at the time of introducing the Reforms of 1919. The Government of India in their despatch

No. 390, dated 19th August 1920, forwarding the draft rules under Section 96 D(1) of the Act, stated as follows :—

“ The first element in the rules to which we would invite particular attention is the fact that we have assigned to the Auditor General duties in connection not only with audit, but also with accounts. * * *

A certain amount of supervision over the compilation of accounts is of course an essential part of the Auditor General's functions. We have, however, provided in the rules that the Auditor General shall perform, in relation to the Finance and Revenue Accounts, the same functions as are at present exercised by our Comptroller and Auditor General. We consider it to be essential that there should be some officer in India who will be responsible to the Secretary of State in Council for the proper compilation and due submission of these accounts, and we are advised that it is not inconsistent with the provisions of the Act to entrust this work to the Auditor General in addition to his duties in connection with audit proper ”.

55. This view was finally accepted without any further comment and provision was made accordingly in the Auditor General's Rules. The present position of the Auditor General in account matters as recognised by these statutory rules is explained in paragraph 47.

56. *The Question of Separation re-opened in 1923.*—As a result of the recommendations made by the Retrenchment Committee (commonly known as the Inchcape Committee), after the introduction of the Reforms, the question of separating audit from accounts was re-opened in 1923, and an experimental scheme of separation has since been tried. The proposals of the Inchcape Committee were directed to relieving Central Revenues of expenditure which, it was argued, ought to be borne by the Provinces ; but they resulted in the consideration of the question of the desirability of relieving the Auditor General, under the new constitution, of a larger or smaller portion of his accounting duties while maintaining unabated his audit duties and responsibilities.

57. Section 26(1) of the Government of India Act of 1919 prescribes the annual submission by the Secretary of State in Council to Parliament of the Finance and Revenue Accounts of India. Rule 13 of the Auditor General's Rules lays upon the Auditor General the duty of compiling these Finance and Revenue Accounts. It will, therefore, be seen that, in order to fulfil his statutory duties in this respect, the Auditor General must continue to have a sufficient voice in regard to the form in which initial accounts shall be maintained to ensure that they shall provide the material from which he can build up the Finance and Revenue Accounts as prescribed by the Secretary of State in Council. This is at present provided in rule 22 of the Auditor General's Rules.

58. At the same time, rule 37(e) of the Devolution Rules framed under Section 45A of the Act lays upon the Finance Department of each local Government the responsibility for seeing that financial rules are framed for the guidance of other departments of the local Government, and that suitable accounts are maintained by those departments and the establishments subordinate to them. This provision is entirely new ; there was not, before the Reforms, any effective Financial Secretariat in most of the Provinces, and the Accountant General used to perform the duties of Financial Adviser to the local Government.

59. From the last two paragraphs, it would appear that there is now a dual responsibility for the framing and maintaining of accounts ; and the Government of India has considered in great detail how best to make provision to maintain the responsibilities of each of these two authorities.

60. *Accounts in relation to Financial Control.*—It is an axiom of financial control that an authority administering public money must be responsible for the proper control of expenditure against the grant allotted to it for the purpose. It follows from this that such authority must maintain accounts in some form adequate for the purpose of maintaining this control ; or, alternatively, must have prompt access to such accounts, if maintained by a separate authority, and must have means of ensuring that the accounts so maintained are in accordance with the facts. If this principle applies to Departments subordinate to the Government of India, or to a local Government, it must apply also to the Central or local Government itself for the purpose of controlling the budget and expenditure of the Central or Provincial Government as a whole.

61. The requirements of the case might be met by the maintenance of two complete and independent sets of accounts, one on behalf of the Government for the purpose of financial control, and the other on behalf of the Auditor General for the purpose of supplying material for the compilation of the Finance and Revenue Accounts. Such a procedure, which had to a great extent already been introduced, might be regarded as theoretically correct ; but it entails additional work, not only in the duplication of expenditure on accounting, but also in the reconciliation of the two sets of accounts. As such duplication is held to be unprofitable, attempts have been made to devise an alternative mode of procedure.

62. The system at present generally obtaining, so far as Civil Accounts are concerned, is a continuance of the system which existed before the Reforms of 1919, under which the Auditor General and his representatives in the Provinces continue to be responsible for the compilation of the accounts and render such help, with the aid of the accounts so compiled, as the local Government may require for the purpose of provincial control of expenditure. The Central Government,

therefore, which bears the cost of the staff, is liable to find this cost indefinitely increased by demands from local Governments or Legislatures for the provision of greater detail in the Accounts. This argument would not, however, apply to Central Departments where the cost in any case falls on Central Revenues.

63. *Experimental Separation of Audit from Accounts.*—This system is definitely prescribed in the Auditor General's Rules. But these rules were amended in 1928 to make provision for an alternative system which gives to local Governments or Departments of the Government of India a control over their own accounts, and at the same time ensures the proper supply of accounts to the Auditor General, without the necessity for the double system of accounts discussed in paragraph 61 above. This alternative system is at present in the experimental stage. Under this provision, the Secretary of State in Council may declare that the maintenance of the provincial accounts of a specified province, or the accounts of any department of the Central Government, may be transferred to an authority other than the Auditor General. Where such a declaration is made, the accounting staff, though no longer subordinate to the Auditor General, is required to furnish accounts to the Auditor General in the form necessary for the carrying out of his statutory duties.

64. This experiment of separation of accounts from audit has taken place on the civil side in the United Provinces, and also in certain departments of the Government of India. Separation has been definitely accepted by the Secretary of State in the case of Railway accounts; while in the case of the Army, the accounting authorities have never been really subordinate to the Auditor General and the system of "separation" has lately been completed by an arrangement under which the Auditor General performs his statutory audit duties by means of a test-audit, through a separate audit staff, of the independently compiled Army Accounts.

65. No decision has yet been reached regarding the final Separation of Accounts from Audit on the Civil Side. The grounds on which the experiment was advocated fall under two main headings. Those on the audit side have been suggested in this Chapter, and will be further examined in Chapter 36. Those connected with the requirements of financial control may be briefly summarised here.

66. The inconvenience of the present system to the administrative authorities arises out of the following considerations :—

- (a) For the purpose of effective control of expenditure, the Government and its Heads of Departments require early and frequent compilations of their up-to-date figures of expenditure. When vouchers have to be collected by an Accountant General's office, after payment, from all Treasuries, considerable time must pass before they can be classified

and compiled by Departments, and such compiled figures are only available for completed months. Moreover, the figures for a month are liable to subsequent increase when debits are passed through exchange accounts.

- (b) When accounts are compiled in the Accountant General's office, his comparison of progressive expenditure with the actuals is largely mechanical and cannot take account of liabilities known only to the Executive.
- (c) The compilation of the accounts in the Accountant General's office is liable to be inaccurate because the accounts are checked by the same authority which compiles them and there is therefore no independent test of their accuracy when compiled. The Executive, therefore, even if it has grounds to believe the accounts to be inaccurate, cannot insist on their correction, being unprovided with the means of proving their inaccuracy through a technical accounting staff.
- (d) Provincial Governments, and Departments of the Government of India, until they maintain their own accounts, are not in a position to direct efficiently the financial aspects of their administration.

67. The experiment was designed to provide a system in which these defects would not exist. An outline of the scheme of separation and the arguments for and against it will be found in Chapter 36.

68. The present period is transitional. So far as the Central Government is concerned, Army Finance and Railway Finance are already to a greater or less extent separately controlled, though the final control rests with the Government of India in the Finance Department. In both cases accounting is carried out by Accounts Departments answerable respectively to the Army and Railway Financial authorities. These Accounts Departments are independent of the Auditor General, who receives from them compiled accounts for inclusion in the Finance and Revenue Accounts, and carries out his statutory obligations by subjecting the Compiled Accounts, as well as revenue and expenditure and financial transactions in general, to a test-audit through the agency of the Directors of Army and Railway Audit.

69. On the civil side, the Central Government has at present, as an experimental measure, a separate accounting staff attached to certain departments and to authorities administering certain area grants. A list of the more important of these is given below :—

<i>Department or Area.</i>	<i>Pay and Accounts Officer by whom served.</i>
Survey of India (excluding Southern Circle), Archaeology, Meteorology, Indian State Forces, Mines and Agriculture.	Pay and Accounts Officer, Survey of India, Calcutta.

<i>Department or Area.</i>	<i>Pay and Accounts Officer by whom served.</i>
The Calcutta Mint.	Pay and Accounts Officer, Miscellaneous Central Departments, Calcutta.
The Income Tax Department in Bengal and numerous small Central Departments and Offices in Calcutta.	
Government Presses at Delhi and Aligarh	Pay and Accounts Officer, Customs, Calcutta.
Customs Offices, Calcutta, and Chittagong.	
Salt Department establishments under the Collectors of Customs, Calcutta and Chittagong.	
Mysore Residency, Mysore Assigned Tracts and Survey of India (Southern Circle).	Pay and Accounts Officer, Bangalore.
Central Departments in the United Provinces, excluding Public Works Department.	Central Pay and Accounts Officer, Allahabad.
Delhi Civil Administration	Pay and Accounts Officer, Delhi Civil Administration, Delhi.
Public Works Departments in Delhi and in the United Provinces.	Central Accounts Officer, Delhi.
Government of India Secretariat and its attached and subordinate offices located at Delhi and Simla.	Pay and Accounts Officer, Secretariat, New Delhi.
The Accounts of the North-West Frontier Province.	Pay and Accounts Officer, North-West Frontier Province, Peshawar.

70. Future development of Separation dependent on future Constitutional Changes.—As will be shown in greater detail in Chapter 22, the legal recognition of the local Governments in the Act of 1919 brought with it a measure of Provincial responsibility for Financial control which had not existed before. As a consequence, they have felt increasingly the need for and the value of promptly and accurately compiled accounts of Provincial transactions. The experimental separation of Accounts from Audit is, therefore, based not only on constitutional theory but on practical requirements. The future of this experiment so far as local Governments are concerned will depend largely on the direction in which the future constitutional progress of India may develop and the degree to which Provincial Finance may or may not become more independent of Central Finance. The further development of this subject will, therefore, be followed with close interest during the next few years.

CHAPTER 5.

Present Distribution of Responsibility for the Compilation and Audit of Accounts in India.

71. *Distribution of Accounting and Audit Duties.*—It will be evident from the description given in the preceding Chapters that, while the Indian Audit Department is, under the Auditor General, solely responsible for conducting the Statutory audit of Government transactions in India, the duty of compiling the account of those transactions is at present divided between that department and several administrative departments of Government. The volume and variety of the transactions with which the Indian Audit Department has to deal necessitate the work of the department being distributed over a number of offices at different centres, while the work of compilation of the accounts which have been separated from audit (either experimentally or permanently) is also located at different places. In order to understand how the Accounting and Audit duties, the details of which will be described in the subsequent Parts of this Manual, are carried on throughout India, it is necessary to glance at the allocation of these duties over several offices and departments. For the sake of convenience the distribution of audit work is considered first.

(A) DISTRIBUTION OF AUDIT WORK.

72. *Main Branches of the Indian Audit Department.*—The Indian Audit Department is divided into five classes of offices, namely, the Civil Audit Offices, which audit the transactions of the Civil, Public Works and Forest Departments; the Railway, Posts and Telegraphs, and Military Audit Offices, which audit the transactions of the departments after which they are named; and the Commercial Audit Offices which audit those accounts of the Civil and Military Departments which are maintained in commercial form.

73. *Channels of control by the Auditor General.*—The Auditor General in India is statutorily responsible for the efficiency of the audit of expenditure in India from the revenues of India and for the audit of such receipts of revenue, of stores and stock, of accounts of any public or quasi-public nature, and of grants of land and alienations of land revenues, as may be entrusted to him by the Governor General in Council. He fulfils his statutory responsibility through five officers, namely, the Controller of Civil Accounts, the Director of Railway Audit, the Accountant General, Posts and Telegraphs, the Director of Army Audit and the Director of Commercial Audit, who are immediately subordinate to him and control respectively the five classes of offices

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named above. The Controller of Civil Accounts works through the office of the Auditor General, while the other four officers have separate offices of their own.

NOTE.—For administrative reasons the Examiner of Custom Accounts, who is the head of a Civil Audit Office, is for the time being under the direct control of the Auditor General.

74. *Civil Audit Offices.*—The main Civil Audit Offices are fifteen in number. The names of the heads of these offices and the audit work allotted to each are stated below :—

- | | | |
|---|---|--|
| (1) Accountant General, Madras. | } | Audit the transactions of the respective local Governments of these Governors' Provinces and most of the Central Civil transactions occurring in those provinces. The Accountant General, Madras, audits in addition the transactions of Coorg. |
| (2) Accountant General, Bombay. | | |
| (3) Accountant General, Bengal. | | |
| (4) Director of Audit, United Provinces. | | |
| (5) Accountant General, Punjab. | | |
| (6) Accountant General, Burma. | | |
| (7) Accountant General, Bihar and Orissa. | | |
| (8) Accountant General, Central Provinces. | | |
| (9) Comptroller, Assam. | | |
| (10) Accountant General, Central Revenues. | } | Audits the transactions of the Civil departments of the Central Government, including the transactions of all local Governments of other than the Governors' Provinces, but excluding the transactions in the North-West Frontier Province and Coorg and those of the Indian Stores and Northern India Salt Revenue Departments. |
| (11) Audit Officer, Moyd Barrage and Canals Construction. | | |
| (12) Audit Officer, North-West Frontier Province. | | Audits the transactions of the North-West Frontier Province. |
| (13) Audit Officer, Indian Stores Department. | | Audits the transactions of the Indian Stores and Northern India Salt Revenue Departments. |
| (14) Examiner of Government Press Accounts | | Examines and audits the accounts of Government Presses both Central and Provincial. |
| (15) Examiner of Customs Accounts. | | Examines and audits the accounts of the Customs Department. |

75. Of the Offices detailed in the last paragraph, all are "Combined" Offices of Audit and Accounts, except those shown as items (4), (12), (14) and (15) which conduct audit functions only. Some of the "Combined" Offices deal also with a certain number of Central Civil Departments in respect of which the accounts have been separated from audit as an experimental measure. In these cases they operate through Audit Officers, who do not themselves perform accounting functions. These Audit Officers, each with his staff conducting the audit of the transac-

tions which are handled by one or more Pay and Accounts Offices situated in the same locality, are subordinate to the Head of the Office. Thus—

- (i) In Bangalore, the Audit Officer, Bangalore Experiments, who audits the transactions handled by the Pay and Accounts Officer, Bangalore, is subordinate to the Accountant General, Madras ;
- (ii) In Calcutta, the Assistant Examiner of Customs Accounts, who audits the transactions handled by the Pay and Accounts Office, Customs, Calcutta, is subordinate to the Examiner of Customs Accounts ;
- (iii) The Audit Officer, Calcutta Experiments, who audits the transactions handled by all other Pay and Accounts Offices located at Calcutta, is subordinate to the Accountant General, Bengal ;
- (iv) In New Delhi, the Audit Officer, Delhi Experiments, who audits the transactions handled by the Pay and Accounts Offices located in Delhi, is subordinate to the Accountant General, Central Revenues.

76. *Railway Audit Offices.*—The Railway Audit Offices, which conduct audit only, and have no responsibility for the compilation of accounts, are under the control of the Director of Railway Audit. There are twelve important Railways in India of which five are worked by Government and the rest by Companies. The audit work on the Railways worked by Government is conducted by the Indian Audit Department. On the lines worked by Companies the original audit is carried out by the Companies' Officers ; but, as Government has a financial interest in the working profits of those Railways, and as the interests of Government and of the Company do not always coincide, the audit conducted by the Companies' Officers are subjected to check, in certain directions, by officers of the Indian Audit Department. There are six Audit Offices for auditing the accounts of all these Railways, and the titles of the Heads of these offices are given below :—

- (i) Chief Auditor, East Indian Railway, and Government Examiner of Accounts, Bengal Nagpur Railway,—with headquarters at Calcutta.
- (ii) Chief Auditor, Eastern Bengal and ~~Burma Railways~~, and Government Examiner of Accounts, Assam Bengal Railway,—with headquarters at Calcutta.
- (iii) Chief Auditor, Great Indian Peninsula Railway, and Government Examiner of Accounts, Bombay, Baroda and Central India Railway,—with headquarters at Bombay.
- (iv) Chief Auditor, North Western Railway, and Government Examiner of Accounts, Bengal and North Western and

Rohilkund and Kumaon Railways,—with headquarters at Lahore.

(v) Government Examiner of Accounts, Madras and Southern Maharatta and South Indian Railways,—with headquarters

(vi) at Madras. v. s 29

(vi) Chief Auditor, Clearing Accounts Office,—with headquarters
(vii) at Delhi.

77. The Audit Officers named against items (i) to (v) audit the accounts of the Railways indicated by their titles. The Audit Officer of the sixth Office audits the accounts of the Railway Clearing Account Office.

78. *Posts and Telegraphs Audit Offices.*—The Posts and Telegraphs Audit Offices, which are “Combined” Offices of Audit and Accounts, are under the control of the Accountant General, Posts and Telegraphs, and are five in number. There are four Posts and Telegraphs Audit Offices at Calcutta, Nagpur, Delhi and Madras, each under a Deputy Accountant General, Posts and Telegraphs. There is also a Telegraph Check Office at Calcutta under an Accounts Officer.

79. *Military Audit Offices.*—The Military Audit Offices, of which there are four, are under the control of the Director of Army Audit, and are responsible for audit only, and not for the compilation of accounts. There is a Deputy Director of Army Audit at Rawalpindi, a Deputy Director of Army Audit at Meerut, an Assistant Director of Army Audit at Quetta and an Assistant Director of Army Audit at Poona. ~~These Officers audit the transactions of the Military Department in the Northern Command, the Eastern Command, the Western Command, and the Southern Command respectively.~~

80. *Commercial Audit Offices.*—The Director of Commercial Audit is the head of the Commercial Audit Offices which are seven in number, namely, Calcutta (Port Trust) and Calcutta Circles with their headquarters at Calcutta, Madras Circle with headquarters at Madras, Bombay Circle with headquarters at Nasik Road, Northern India Circle with headquarters at New Delhi, Burma Circle with headquarters at Rangoon, and Army Factory Test Audit Circle with headquarters at Cossipore for the Eastern Group and Cawnpore for the Western Group. The Commercial Audit Branch is responsible for audit only, and not for accounting. The Calcutta Port Trust Circle conducts the audit of the Calcutta Port Trust, the Bengal Pilot Service, and one district of the Indian Light House Administration. The Calcutta Circle conducts commercial accounting investigations, and audit in Bengal, Assam, Bihar and Orissa and part of the United Provinces; the Madras Circle those in Madras; the Bombay Circle those in Bombay and the Central Provinces; the Northern India Circle those in the Punjab, Delhi, and part of the United Provinces; and the Burma Circle those in Burma

and the Andaman Islands ; and the Army Factory Test Audit Circle test audits the accounts of the Army Factories throughout India.

(B) DISTRIBUTION OF ACCOUNTING DUTIES.

81. *Transactions of the Civil, Public Works and Forest Departments.*—Of the fifteen Civil Audit Offices mentioned in paragraph 74, the offices of the Accountants General, Madras, Bombay, Bengal, Punjab, Burma, Bihar and Orissa, Central Provinces and of the Comptroller, Assam, the Accountant General, Central Revenues, the* Audit Officer, Lloyd Barrage and Canals Construction, and the Audit Officer, Indian Stores Department, are combined Audit and Account Offices, that is to say, they compile the accounts of the transactions which they audit. The Accounting of the transactions in the United Provinces is under the immediate charge of the Deputy Chief Accounting Officer, United Provinces, who has under him several Pay and Account Officers who compile departmental figures ; and the Accounting of those of the North-West Frontier Province is under the charge of a Pay and Accounts Officer. The preliminary compilation of the accounts of the Central Civil Departments where separation has taken place are made by the Pay and Accounts Officers by whom they are served ; and these accounts are finally incorporated in the books of the Accountant General, Central Revenues, except those of the Central Civil Departments in the United Provinces, which are incorporated in the books of the Deputy Chief Accounting Officer, United Provinces, and those of the North-West Frontier Province, which are separately compiled.

82. *Transactions of the Railway Department.*—The Accounts of the transactions of the Railway Department are under the immediate charge of the Controller of Railway Accounts, who is subordinate to the Financial Commissioner, Railways, and not to the Auditor General. The Controller has under him five Chief Accounting Officers for compiling the accounts of the five State Railways worked by Government. There is also a Railway Clearing Account Office, which acts as an intermediary for the adjustment of foreign claims in respect of four State-worked Railways, namely, the Eastern Bengal, the East Indian, the North Western and the Great Indian Peninsula Railways, and one Company-worked Railway, namely, the Bombay, Baroda and Central India Railway.

83. *Transactions of the Indian Posts and Telegraphs Department.*—All the four Posts and Telegraphs Audit Offices are combined Audit and Account Offices dealing with the transactions of the respective Circles. The Accountant General, Posts and Telegraphs, compiles the final account of the whole Department. The Telegraph Check Office, Calcutta, acts

* NOTE.—The Accounts of the Lloyd Barrage, though separately compiled, are incorporated in the books of the Accountant General, Bombay.

CHAP. 5.] RESPONSIBILITY FOR THE COMPILATION AND AUDIT [84-85
OF ACCOUNTS IN INDIA.

as a clearing house for messages exchanged with other Telegraph Administrations, and calculates the amounts due from or to those administrations.

84. *Transactions of the Military Department.*—The Compilation of the accounts of the Military Department is wholly done by the Military Accounts Department, the actual arrangement in regard to which will be described in Chapter 9.

85. *Commercial Accounts.*—*Pro formâ* Accounts of Government Commercial enterprises are maintained by the Department responsible for carrying out the activities of the Commercial Concern. In certain circumstances the assistance of Commercial Audit Officers may be requisitioned to organise the Commercial Accounting System and to guide the work of the departmental accountant until he becomes competent to perform his accounting duties.

PART II.

The Indian Financial Structure and the Initial
Accounts.

CHAPTER 6.

**Brief Description of the General Structure of the Financial
Administration in India.**

86. Structure of administration.—For the purpose of administration, India is divided into nine major provinces, namely, Madras, Bombay, Bengal, United Provinces, Punjab, Burma, Bihar and Orissa, the Central Provinces and Assam, and six minor provinces, namely, Delhi, the North-West Frontier Province, Ajmer-Merwara, Baluchistan, Coorg and the Andaman Islands.

87. Subject to the general superintendence, direction, and control of the Governor General in Council and of the Secretary of State in Council, the administration of each of the nine major provinces is entrusted to a Governor who is counselled and assisted in this behalf by the Members of his Executive Council and his Ministers. The six minor provinces (except Coorg, whose position is unique,) are directly subordinate to the Central Government; of which the Governor General in Council is the head; and the administration of each of them is entrusted to a Chief Commissioner. In the case of Governors' provinces, the Governor in Council or the Governor acting with Ministers (as the case may be) form the local Government, while in each minor province the Chief Commissioner himself constitutes the local Government.

88. The initial responsibility for the administration of each department of Government activities is laid upon the head of the department concerned, who is controlled and guided in this respect by his own Government. In Financial matters each head of a department is thus responsible for the collection of revenue and for the control of expenditure pertaining to his department, the receipt and disbursement of which are effected at various places and through various persons. The account of all these receipts and payments, both central and provincial, throughout the country is called the public account, of which the Governor General in Council is the sole custodian.

89. Treasuries.—All the provinces mentioned in paragraph 86 are divided into a number of "districts"; and at the headquarters of each

district there is a Government treasury called the "District Treasury" with one or more sub-treasuries distributed throughout the district. These treasuries are the units of the fiscal system of India and the points at which the public account starts.

90. There are at present in existence nearly 300 district treasuries and over 1,200 sub-treasuries scattered over the length and breadth of India. Into them are paid the whole of the public receipts and from them (but mainly from the treasuries alone) are disbursed the whole of the public payments of the country.* Speaking generally, when anyone has a payment to make to Government he presents the money with a challan at one of these treasuries and receives a receipt for it; when he has a payment to receive from the Government he presents a receipted bill, or a cheque issued in his favour by a competent officer, at a Government treasury and obtains payment on it. This treasury business is conducted for Government by the Imperial Bank of India at every station at which it has a local head office or a branch, receiving revenues or making payments under the orders of competent Government officers. This decentralisation of treasury work is a feature of the Indian financial system which should be clearly grasped at the outset as it conditions the whole of the subsequent arrangements. It is this feature of the Indian system which marks the essential difference from the financial system in England, where the public receipts and payments are all centralised at the Bank of England in London, and there are no outlying State treasuries.

91. While therefore all public receipts and payments pass through the treasuries whose conjoint accounts, together with the Government account at the Imperial Bank of India, present a complete record of the transactions of the Central and Provincial Governments in India, it should be noted, as an important variation in detail, that in the case of certain large departments, as for example the Railway, Military, Forest, and Posts and Telegraphs, the payments into the treasuries are not made directly by the debtors of Government but in lump through the departmental officers. Similarly, in the case of these departments and certain others, specially those whose accounts have been separated from Audit, payments are made by cheques on the treasury or from lump sums drawn from the treasury by the departmental officers. In respect, therefore, of these departments the treasury accounts show lump transactions, or payments by cheque. In the case of the Public Works Department † all personal demands of gazetted officers and establishments are paid direct at the treasury, the contingent bills are

* NOTE.—In a few very exceptional cases, departmental receipts may be appropriated to meet departmental expenditure. See Treasury Order 7.

† NOTE.—This does not apply entirely in the case of the Public Works Department in the United Provinces, where the accounts of the Province as a whole have been separated from Audit

paid in some cases at the treasury and in others by cheques, while all other payments are paid by cheques.

92. *Initial accounts.*—The revenue so received and the payments so made at the treasuries are compiled at each district treasury into a monthly account which is sent to the provincial Account Officer; and at the same time the officers of the departments mentioned in the last paragraph send monthly detailed accounts of their lump transactions with the treasuries to their own Account Officers.

93. *Classification.*—The classification, or the marking of each item of receipt and payment according to the heads of account to which it relates, is made by the departmental officers on the challan or bill presented to the treasury, or in the departmental accounts rendered to the Account Officers. This process is carried out in great detail, and eventually every item of receipt and payment is most carefully and minutely differentiated and classified, as will be further explained in Chapter 11.

94. *Compilation.*—The monthly accounts received from the treasuries and from the departmental officers are compiled by the Account Officers into consolidated monthly accounts of Provinces, Railways, Military districts and other Account Circles. Extracts of the Civil, Posts and Telegraphs and Railway Accounts are then submitted to the Controller of the Currency who consolidates them month by month.

95. Each Account Officer simultaneously works out the progressive figures, during the year, of the accounts of the Province or Department, as the case may be, and an account which they compile for the whole year is submitted to the Auditor General.

96. At the same time accounts of certain receipts and payments appertaining to India, which occur in England, are controlled, and finally booked against the respective Governments and heads of accounts in England, under arrangements made by the Secretary of State for India and the High Commissioner for India, and are sent to India by the India Office and the High Commissioner.

97. The Auditor General consolidates the annual accounts of all Account Officers in India, as well as the accounts of the Indian transactions in England which have been booked finally in the Home accounts, into one annual account for the whole country. This account is presented by the Secretary of State to both the Houses of Parliament and is called the "Finance and Revenue Accounts of the Government of India."

98. There are thus four stages of compilation—(1) the monthly compilation by the district treasuries and certain departmental officers, (2) the monthly compilation by the Account Officers, both in India and England, (3) the monthly compilation for the whole of India, for certain

heads of accounts, by the Controller of the Currency, and (4) the yearly compilation of a consolidated account for the whole of India by the Auditor General.

99. It will be noticed that the accounts are built up from below. Each of the numerous district treasuries and sub-treasuries contributes its quota ; and these, together with the detailed accounts of their treasury transactions prepared by the departmental officers, proceed monthly to the various account centres, whence, after certain processes, they emerge in larger streams and, joined by the accounts from England, finally converge and concentrate in the office of the Auditor General, where they are combined into one consolidated account for the whole of India.

100. This, in broadest outline, and purposely omitting at this stage all divergencies in detail, is the method of the record, classification, and compilation of the public accounts in India from the point at which the initial receipts and payments occur at the district treasuries and sub-treasuries and the Home treasury to that at which, in the form of a classified, audited, and consolidated account of the year's transactions, they reach the Secretary of State and Parliament.

✓ 101. *Audit*.—The Audit of Government transactions in India is fully discussed in Parts III and IV of this Manual. In a large number of cases it is conducted before compilation, either before or after the expenditure is incurred ; but in some cases, to ensure expedition in compiling the general account of a Government or Department, it has to be conducted after the compilation. The audit of receipts is for the most part carried out by the departmental officers who collect the Government revenues ; that of expenditure in India, apart from the limited check applied at treasuries and the departmental check exercised by departments which compile their own accounts, is conducted by the Indian Audit Department.) Audit of the Government transactions in England is conducted by the Auditor of the Indian Home Accounts, and these accounts are received in India after they have been audited by him.

102. *Provision of funds*.—To complete this preliminary sketch of the financial machinery of India, it is necessary to glance at the arrangements for the provisions of funds for the public service which come under the heads known as Budget, Ways and Means and Resource. These subjects have been discussed in detail in the next Chapter and in Chapter 15.

103. *Estimates*.—In the cold weather of each year detailed estimates (called budget estimates) are prepared of the probable receipts and requirements of all kinds in India and England during the ensuing financial year (April to March.) A full description of the system of budget estimates, and of grants and appropriations and their distribution

among controlling and disbursing authorities, will be found in Chapter 15. At this stage all that needs to be explained is that, after the estimates are sanctioned by competent authorities, the grants and appropriations are sub-divided into a number of allotments, the amounts of which are then communicated to the respective controlling and disbursing authorities by the Government, which thereby indicates its consent that those authorities should incur expenditure within the limits of the allotments placed at their disposal.

104. Simultaneously with the preparation of the budget estimates for the ensuing year, the budget estimates of the current year are reviewed, and proper sanction is obtained for the existing allotments, where necessary, to be increased or reduced as the case may be.

105. Ways and Means.—The consideration of “Ways and Means” aims at arranging that the Government cash balance, including that portion of it which is held in England, shall at all times during the year be sufficient to meet requirements. Into these cash balances enter not only the multifarious sums due to and by Government which are generally known as revenue and expenditure, but also the very large amounts borrowed by Government for capital expenditure in the Railway and other departments, and also other amounts in regard to which Government acts as a banker or remitter, or borrower or lender, such as deposits of all kinds, money order and loan receipts and issues, advances, remittances, etc., etc., which are grouped in the accounts under the head “Debt and Remittance.” All amounts falling under these headings enter and leave the treasuries and affect the public cash balance, and are technically known as public receipts and disbursements, or incomings and outgoings, as distinguished from public revenue and expenditure proper. It is with these transactions as a whole that “Ways and Means” deal. A forecast is prepared of the opening balances of the year, and of the monthly incomings and outgoings of all kinds, pertaining to the Central Government as well as those of all provincial Governments; and it is arranged, by adjusting the one to the other, by raising a loan, for example, or reducing the amounts proposed for expenditure, that the estimated Government cash balance as a whole shall never fall unduly low. With the same object a careful watch is maintained throughout the year on the actual progress of transactions.

106. Resource.—“Resource” is the process of distributing the cash balance of the country between the different treasuries or paying centres (including the Home Treasury), so that each shall at all times have sufficient funds to meet the local demands on it. Some treasuries collect more receipts than they require for their payments, others less; and the surplus treasuries have to feed the deficit treasuries. The Home Treasury, for instance, is always heavily in deficit, and is supplied with

funds by the sale of Secretary of State's Council Bills, by the purchase of sterling from banks and firms in India, and sometimes by transfers from the Paper Currency or Gold Standard Reserves. Generally, "Resource" is carried out by means of remittances between treasuries, either in cash or by bills, and by the establishment of "currency chests" for utilising for remittance purposes the cash balances held against the currency note circulation, in a manner which will be explained in Chapter 7.

107. *Functions of various authorities.*—In matters connected with classification, audit and accounts, the duties and powers of the Auditor General have already been stated in paragraphs 46 and 47. The Finance Departments of the Central and Provincial Governments are responsible for the Budgets, and the Account Officers are responsible for assisting in the preparation and scrutiny of estimates. "Ways and Means" and "Resource" arrangements are under the direct control of the Central Government and are administered by the Controller of the Currency. In dealing with the "Ways and Means" problem that officer is assisted by the Account Officers, while in regard to "Resource" arrangements he is assisted by Deputy Controllers of the Currency and Currency Officers. In Madras and Burma the Accountants General act as *ex-officio* Deputy Controllers of the Currency under the orders of the Controller of the Currency. Other Account Officers also supply the Controller of the Currency with such information* pertaining to the accounts compiled by them as that officer may require in connection with the administration of these subjects.

108. *Comparison with the English system.*—In concluding this Chapter it will serve to bring into further relief the distinctive features of the Indian system if a brief comparison is instituted between it and the English arrangements.

- (i) It has already been explained in Chapter 2 how the administrative arrangements of a country govern its fiscal arrangements. Thus, in Great Britain a highly centralised fiscal system follows a highly centralised form of Government. There is only one public treasury as compared with nearly 300 main treasuries, and 1,200 sub-treasuries, in India. It is not of course to be supposed that the whole of the English public receipts and payments occur exclusively at the Bank of England in London, though the arrangements admit of a large proportion of them so occurring. This bank is, however, the centre where the public balances and accounts are kept, and from which original issues of public money are made—in other words, it is the only Government treasury. The English account and audit and budget arrangements are similarly centralised ;

“ Resource ” may be said to be non-existent ; and “ Ways and Means,” as handled by the Chancellor of the Exchequer, is simplified by being confined to *revenue and expenditure* proper and by excluding *debt and remittance*, which are separately controlled.

- (ii) In India, on the other hand, in place of this concentration and simplicity, we have decentralisation and immense multiplicity and variety, due mainly to the enormous area of the country and its enormous as well as diverse population. To these two causes, combined with the slow and late development of private banking, are due the numerous treasuries and sub-treasuries, distributed at wide distances from each other all over the country, where public money is always being received and paid and public accounts are always being prepared and issued to the numerous provincial and departmental account centres.
- (iii) The number of treasuries again brings in its train the Indian “ Resource ” problem or the never-ending task of distributing a cash balance, which varies by many crores of rupees at different times of the year, over 300 main centres in India and the Home Treasury according to their fluctuating requirements.
- (iv) From the same two causes, namely, the area and the population involved, necessitating as they do a large delegation of executive authority, primarily spring the administrative divisions and arrangements mentioned in the opening paragraphs of this chapter, which again re-act on and condition the financial arrangements, and give India its provincial and departmental as well as Central finance and budget systems, and its various account and audit offices.
- (v) Finally, in India, where the State still performs many functions which elsewhere are undertaken by private enterprise, Government acts largely as a banker and remitter, and holds and pays immense sums which are not State revenue or expenditure proper and greatly complicate the already large problem of “ Ways and Means ” or the constant adjustment to each other of the fluctuating volume of incomings and outgoings.

CHAPTER 7.

Currency and Resource Arrangements.

109. *Currency and Resource*.—In paragraphs 105 and 106 a brief reference has been made to the Currency and Resource arrangements in India. This Chapter is intended to deal in outline with the broad principles and general arrangements concerning these subjects.

110. *Currency*.—The Currency of India consists of coins, of which the coinage and issue are authorised under the Indian Coinage Act (Act III of 1906), as subsequently amended, and of currency notes issued under the provisions of the Indian Paper Currency Act (Act X of 1923), as subsequently amended.

111. The coins issued under the Indian Coinage Act are of the following kinds :—

- (a) *Silver*.—Rupee, half-rupee, and quarter-rupee ;
- (b) *Nickel*.—Four-anna piece, two-anna piece and one-anna piece ;
- (c) *Bronze*.—Single pice or quarter anna, half pice or one-eighth anna, and pice or one-twelfth of an anna.

112. The rupee and the silver half-rupee are legal tender up to any amount ; and the subsidiary coins, including the obsolete silver eighth-rupee, and also those copper coins of the denominations specified in item (c) above, and double pice coined and issued under the Coinage Act of 1835 and subsequent Acts, which are still in circulation, are legal tender for a sum not exceeding one rupee.

113. Currency notes are issued in the following denominations, namely, Rs. 5, Rs. 10, Rs. 50, Rs. 100, Rs. 500, Rs. 1,000 and Rs. 10,000. Notes of denominations of Rs. 100 and under (including any of the obsolete Re. 1, Rs. 2-8-0, and Rs. 20 notes, which may still be in circulation,) are universal notes, that is to say, they are legal tender at any place in British India except by the Government of India at an office of issue. Notes of denominations * of Rs. 500, Rs. 1,000 and Rs. 10,000 are legal tender at any place within the circle in which they are issued except by the Government of India at the Currency office of issue.

114. The policy of the Government of India is to supply the form of currency which is demanded by the public ; but the use of currency notes is encouraged as far as possible. Until the time of the Great War the silver rupee was the main medium of exchange, and the circulation of currency notes outside large towns was comparatively small. During

* NOTE.—It is possible that notes of higher denominations may shortly become universal notes.

the War, however, when there was a shortage of silver rupees, the use of currency notes, especially those of small denominations, (including Re. 1 and Rs. 2-8-0 notes which were issued for some time during and after the War) was encouraged in every possible way, and the use of notes has now to a considerable extent been substituted for that of silver rupees as the common medium of exchange.

115. The Currency offices of issue are at Calcutta, Bombay, Madras, Rangoon, Lahore, Cawnpore and Karachi, and Government are required by law to give rupees in exchange for universal currency notes at any of these places, and for non-universal notes at the particular Currency office from which the notes are issued. No person has a legal claim to receive cash for notes presented at a Government Treasury; but, in order to encourage the use of notes, Government have issued orders that currency notes should be cashed freely at any Government treasury or branch of the Imperial Bank of India, whenever this can be effected without unduly reducing the stock of rupees at a treasury or branch of the Bank; and officers of the Currency Department have instructions to see that a sufficient stock of rupees is kept at each treasury and branch of the Bank to provide for exchanges of currency notes presented by the public.

116. *Paper Currency Reserve.*—A Reserve, known as the Paper Currency Reserve, is maintained for the satisfaction and discharge of the currency notes in circulation. The Reserve consists of two parts, namely, (a) the Metallic Reserve, and (b) the Securities Reserve. The Metallic Reserve consists of the total amount represented by the rupees, silver half-rupees, and gold and silver bullion held for the time being on that account by the Secretary of State for India in Council and by the Governor General in Council; provided that no amount of gold bullion held by the Secretary of State in the United Kingdom in excess of fifty millions of rupees in value reckoned at a prescribed rate shall be included in the Metallic Reserve. The Securities Reserve consists of securities held by the Secretary of State for India and the Governor General in Council, and must consist of securities of the United Kingdom and securities of the Government of India, the amount of the latter being limited to two hundred million rupees, of which an amount of not more than one hundred and twenty millions of rupees may be securities created by the Government of India for the purpose and issued to the Controller of the Currency. Under the Indian Paper Currency Act, the amount of currency notes in circulation at any time may not exceed the amount of the metallic reserve together with the amount of the securities reserve, and also may not exceed twice the amount of the metallic reserve. The above description relates to the permanent composition of the reserve; but, owing to special circumstances arising out of the War, the limit of the securities of the Government of India in the reserve has been temporarily suspended.

117. The portion of the securities reserve held in India is kept in the custody of the Controller of the Currency. The portion of the metallic reserve held in India is held partly in Currency offices and partly in currency chests which are maintained at every treasury and at a large number of sub-treasuries. The object of scattering the metallic reserve in currency chests throughout India is explained below in paragraph 119.

118. *Resource.*—The cash balance of the Government of India in India is made up of the balance in the Government account with the Imperial Bank of India and the balances at treasuries and sub-treasuries situated at places where there is no branch of the Imperial Bank of India. At places where there are branches of the Imperial Bank of India all Government receipts are paid into and all Government disbursements are made from the branch of the Bank, and the Bank is responsible for the distribution and maintenance of funds according to requirements at these places. The Controller of the Currency is generally responsible for keeping in the Government account at the Imperial Bank of India a sum sufficient to enable the Bank to meet Government disbursements at all its branches and also for the maintenance of adequate cash balances at treasuries and sub-treasuries situated at places where there is no branch of the Bank. The transfer of funds between such treasuries and sub-treasuries and the branches and the Local Head Offices of the Imperial Bank of India in such a way as to keep the balances in the Government account with the Imperial Bank of India, and at each treasury and sub-treasury, sufficient to meet all Government payments without unnecessarily locking up funds is an important part of the resource work in India.

119. *Funds in India.*—The transfer of funds between treasuries and sub-treasuries and branches and Local Head Offices of the Imperial Bank of India is effected for the most part through the medium of the currency chests mentioned in paragraph 117 above. Notes held in a currency chest are not in circulation within the meaning of the Indian Paper Currency Act, while coin held in a currency chest is a part of the reserve held by Government against notes that are in circulation. Assuming that there are no transactions elsewhere, the deposit of notes in a currency chest decreases the amount of notes in circulation and the deposit of rupees in a currency chest increases the amount of coin in the Paper Currency Reserve. A deposit of coin or notes in a currency chest thus enables Government to issue notes elsewhere up to the amount of the deposit without exceeding the limits of circulation laid down by the Act. If, therefore, a transfer of funds from the treasury balance at A to the treasury balance at B is required, this can be effected at short notice and without the actual remittance of coin or notes by transferring money from the treasury balance to the currency chest at A and transferring the same amount from the currency chest to the treasury balance at B. In this way transfer of funds between places where there are

currency chests is effected without the actual remittance of coin or notes ; and this is the normal method of putting branches of the Imperial Bank of India, treasuries and sub-treasuries in funds, and also of removing from circulation surpluses accumulating thereat. The stock of currency notes and coin kept in a currency chest varies according to the needs of the respective districts. Remittances are made periodically from currency chests to Currency offices and *vice versa* in order to keep the stocks at the necessary figure.

120. *Facilities to the Public.*—In addition to providing funds for Government payments at treasuries, Government gives facilities to the public for the transfer of money to and from places where there are Government treasuries. Under its agreement with the Government of India, the Imperial Bank of India gives every facility to the public for the transfer of money between places where it has branches at rates not exceeding those laid down by the Controller of the Currency, and the facilities given by Government for the transfer of money are limited to transfers to and from treasuries where there is no branch of the Imperial Bank of India. The public can obtain telegraphic currency transfers or bills payable on demand, called supply bills. Telegraphic currency transfers are always paid from currency and adjusted through the accounts of the Currency Department. Supply bills are paid from the treasury balance and adjusted through the ordinary Government accounts.

121. *Funds in England.*—The provision of funds in London to meet the large payments which the Secretary of State and the High Commissioner for India have to make in England is an important part of the *Ways and Means* operations of Government. The annual exports of India are generally in excess of its imports, and ordinarily there is a large demand from the public for remittance from England to India to adjust the value of the net exports. To meet this demand and at the same time to place the Secretary of State and the High Commissioner for India in funds, transfers of money from India to England become necessary, and are effected by the purchase of sterling by the Government of India from banks and firms on an approved list. These banks and firms arrange with their London Agents by cable for the payment of the sterling thus bought by Government to the Imperial Bank of India in London for credit to the account of the Secretary of State in Council at the Bank of England. The rupee payments made by the Government are met from their treasury balances with the Imperial Bank of India.

122. *Expansions and contractions of Currency.*—The Government of India have occasionally to purchase gold or to sell gold or sterling to comply with the provisions of the Indian Currency Act (Act IV of 1927). The currency may also be expanded or contracted by transfers between the Treasury and the Paper Currency Reserve accounts. The necessary adjustments are then made between the Treasury and the Paper Currency

Reserve or the Gold Standard Reserve accounts, and the payments of sterling in London are made from the source to which the sale proceeds have been credited in India.

123. No account is given here of the Gold Standard Reserve, a knowledge of which is not required in the ordinary course of the duties of Audit and Accounts Officers. As the position is constantly changing, a knowledge of the subject must be gained, when required, by a study of up-to-date information in regard to this Reserve.

CHAPTER 8.

The Working of a Treasury.

124. *Personnel.*—The personnel of a district treasury, in those districts where the Treasury balances are not in the custody of a branch of the Imperial Bank of India, consists of—

- (1) The Collector or Deputy Commissioner of the district.
- (2) The Treasury Officer, generally a Deputy Collector.
- (3) The Treasurer.
- (4) The Accountant.

There are also clerks, money testers, messengers, etc.

125. The Collector is in general charge of the treasury and is personally responsible for its general administration, for the correctness of its returns and the punctuality of their submission, and for the safe custody of the valuables it contains ; but he takes no part in the daily routine of treasury business.

The Treasury Officer is (under the Collector) in immediate executive charge of the treasury.

126. Under these two officers the treasury is divided into two departments, that of cash, stamps, and opium under the charge of a Treasurer, who always has to give security, and that of accounts in charge of the Accountant.

127. *Building.*—The treasury building contains a counter at which money is received and paid, and a strong room, guarded by an armed police guard, in which the valuables are secured under double locks, one key being held by the Treasury Officer as the Collector's representative and the other by the Treasurer.

128. *Opening of the Treasury.*—The procedure of opening the Treasury for the day is as follows :—

Both the Treasury Officer and Treasurer being present, the locks and seals of the gates of the strong room are made over intact by the guard and the room is opened, each officer using his own key, and sufficient cash and currency notes to meet the probable demands of the day are taken out, made over to the Treasurer, and entered in his accounts. The strong room is then again double locked. Issues from the strong room to meet further demands during the day are similarly made. Stamps and opium are issued to the Treasurer from the double lock as required, subject to the general rule that the value of cash, notes, stamps and opium in the hands of the Treasurer at any time shall not exceed his security.

129. *Receipts.*—The receipt and issue of money then begin. When any one has occasion to pay money into a treasury he first procures a document called a “*chalan*,” which is usually bi-lingual and in duplicate, one copy to serve eventually as a receipt and the other for record in the treasury. In the *chalan* he enters the nature of the payment as well as the person or officer on whose account it is made, and has the entries checked, passed and recorded by the revenue department concerned. He then takes the *chalan* to the Accountant, who, if it is in order, initials it and directs the presenter to take it with the money to the Treasurer, who, seeing the Accountant’s initials, tests and counts the money, enters the transaction in his account, and signs both copies of the *chalan* in token that he has received the money. The presenter then takes the *chalan* back to the Accountant, who, on the strength of the Treasurer’s signature, enters the transaction in his accounts, and completes his signature on one copy of the *chalan* which then forms a full acquittance. In the case of sums of Rs. 500 and upwards the Treasury Officer also signs the receipt.

130. *Payments.*—Similarly, all payments are made by the Treasurer after examination by the Accountant, but only upon an order to pay signed by the Treasury Officer himself.

When a bill, giving full details as to the amount, nature, and period of the payment, and all other particulars necessary for its complete identification, is presented for payment it is received and examined by the Accountant, who enters it in his accounts and lays it before the Treasury Officer, who, if it is in order, signs an order for payment on it. It is then passed on, together with the payee, to the Treasurer’s Department, and the Treasurer makes the payment and enters it in his account. The voucher is stamped “paid” and retained by the Treasurer for delivery to the Accountant’s branch at the end of the day, when the books are compared in the manner explained in paragraph 134 below. Before payment, the bill has to be receipted by the payee.

131. When a payment has been made by cheque drawn on the treasury, similar formalities are observed in encashing it. The Accountant examines its validity and the Treasury Officer verifies it and, if he finds it to be in order, signs on it an order for payment, on the authority of which the Treasurer makes the payment and enters it in his account. The paid cheque, which then becomes a voucher, is handled in the same way as other vouchers.

✓ 132. *Treasurer’s and Accountant’s Books.*—The Treasurer’s account consists of a cash book (without subsidiary registers) in which each transaction of receipt and payment is posted as it occurs; but the Accountant has, in addition to a cash book, subsidiary registers for receipts and payments of frequent occurrence, or of a special nature, or belonging to departments for which separate returns are prepared, and only the daily totals of these registers pass into his cash book.

✓ 133. *Incorporation of Sub-Treasury accounts.*—Receipts and payments continue throughout the day according to this method. At the same time, a daily sheet (supported by vouchers) is received in the district treasury from each of its sub-treasuries reporting the receipts, payments and balance of the day before (in some cases the second or third day before, according to the distance by post); and after examination is at once posted into the Accountant's books at the district treasury but not into the Treasurer's account.

✓ 134. *Daily closing.*—The process of closing the Treasury for the day is as follows:—

- (i) The Accountant transfers the totals of his subsidiary registers into his cash book, sums and closes the latter, and prepares a balance sheet in a prescribed form.
- (ii) The Treasury Officer checks both registers and cash book, comparing each payment entry with its voucher, and the register totals with those entered in the cash book, and verifies a certain number of the totals, the rest being checked by a clerk other than the Accountant. The cash book totals are also checked by a senior subordinate other than the Accountant.
- (iii) Meanwhile the Treasurer sums both sides of his cash book and draws up a balance memorandum which gives details in kind of the notes, coin, etc., composing the balances in his hands.

If the results in the two balance sheets agree, the Treasury Officer signs both cash books and both balance sheets, and the accounts for the day are closed.

NOTE.—The Accountant's balance includes the balances of the sub-treasuries (paragraph 133) and also remittances in transit between treasuries in the district, which have to be deducted before agreement can be effected with the Treasurer's balance.

- (iv) The Treasury Officer then verifies the cash, etc., in the hands of the Treasurer as shown in his balance memorandum, and, together with the Treasurer, locks it up under double locks in the strong room which is then left for the night in charge of the guard.

135. *Receipt, issue, and safe custody of treasure.*—The actual process of dealing with the valuables in a treasury, which include gold, silver, nickel, bronze, copper, currency notes, stamps, and opium, is as follows:—

- (i) Payments into and from the treasury are made in silver nickel, bronze, and copper coin, and in currency notes. Gold mohurs, sovereigns and half-sovereigns are received in treasuries in certain circumstances, but they are not issued as currency. Stamps and opium are also kept in stock and issued as required.

- (ii) All coin, besides being counted, is tested in detail before receipt to see that it is genuine, current, and up to weight according to certain rules laid down.
- (iii) Currency notes are similarly examined to see that they are genuine and not mis-matched or altered, etc.
- (iv) Coin intended for reception into the strong room is made up into bags of uniform contents (Rs. 500, Rs. 1,000 or Rs. 2,000, according to convenience of use) and before deposit the contents of each bag are poured into scales, weighed, and tied up again in bags, in the presence of both the Treasury Officer and the Treasurer.
- (v) Notes are made up in bundles according to denominations and counted both by the Treasury Officer and by the Treasurer.
- (vi) In the strong room itself the bags of coins are placed as a rule in iron boxes or safes or wooden chests, or occasionally in built recesses or wells, each receptacle being under double locks like the strong room itself. Coin which has been longest in the treasury is given out first, two boxes or other receptacles being, for this purpose, brought into use simultaneously, one in which all receipts are placed, and the other from which money required is given out.
- (vii) The bundles of currency notes are similarly kept in suitable boxes in order of receipt, so that those longest in stock may be first issued ; and similarly with stamps and opium, all the separate boxes being under double locks.
- (viii) Most treasury strong rooms also contain currency chests in which a portion of the cash balance held against the note circulation of the country is kept for remittance purposes (see paragraph 119). These chests also are under double locks.

136. *Monthly balance.*—The working of the treasury proceeds in this way from day to day, and the monthly process is completed by the cash (coin and notes) present in the district treasury on the last day of the month being verified by the Collector himself, or by a responsible assistant if he should not be at headquarters, the cash in each sub-treasury being similarly counted by the local officer in charge. An actual cash balance report for the whole district is then drawn up with which the account balance is compared.

137. *Monthly accounts.*—The point has now been reached for the despatch of the monthly returns to the Account Office. In the case of treasuries situated in the provincial areas of the local Governments of Governors' Provinces, the returns are submitted to the Account Officer

of the Province, namely, the Accountants General in Madras, Bombay, Bengal, the Punjab, Burma, Bihar and Orissa, and the Central Provinces, the Comptroller in Assam, and the Deputy Chief Accounting Officer in the United Provinces; and in the case of treasuries situated in the Central Areas, that is, those outside the territorial jurisdictions of the local Governments of Governors' Provinces, they are submitted to the Accountant General, Central Revenues, except in the case of the North-West Frontier Province, where there is a separate Account Officer, and of Coorg in respect of whose transactions the Accountant General, Madras, is the Account Officer.

138. These monthly returns consist of (i) schedules or payments in two parts, the first part relating to the payments made from the 1st to the 10th of the month and the second part to those made during the rest of the month; (ii) schedules of receipts; (iii) a List of Payments; and (iv) a Cash Account. These are written up *daily* in the treasury from the Accountant's Cash Book and the Registers subsidiary thereto, and the vouchers are day by day numbered, arranged, and put away under lock and key.

139. There are separate schedules for each Department or for each class of transactions not relating to any particular Department, and in them the transactions are entered in sufficient detail to enable the preliminary compilation in the Account Office to be made therefrom, and the vouchers to be identified according to the classification given in them. The List of Payments and the Cash Account show respectively the total payments made, and the total receipts collected, during the month, detailed according to each schedule, or, in respect of the Debt and Remittance transactions, according to broad account classification. The Cash Account also works up to the actual cash balance in the Treasury on the last day of the month, as personally counted by the Collector, after bringing into it the total payments as shown in the List of Payments.

140. The first batch of payment schedules, supported by the necessary vouchers, is sent to the Account Office on the 10th or 11th of the month; and the remaining schedules, supported by the necessary vouchers, the List of Payments, and Cash Account, which is accompanied by the cash balance report (paragraph 136), are sent on the 1st of the succeeding month.

NOTE.—The procedure described above differs in certain details in respect of treasuries in Madras and those situated in the Central Areas.

141. The schedules, List of Payments and Cash Account, described above as sent from each treasury monthly to the Account Officer, represent the first stage of compilation of the public accounts (paragraph 98). They cover conjointly the whole of the public transactions in India including departmental accounts and debt and remittance, and work up conjointly to the cash balance at treasuries at the end of each

month. They may be said to constitute the primary fabric of the public accounts in India.

142. *Daily and monthly agreement.*—It will be noticed generally that the correctness of the daily accounts of a self-contained treasury is secured by making two independent officials (the Accountant and Treasurer) separately deal with and record each item of receipt and payment as it occurs, and by effecting an agreement at the end of the day between the two sets of accounts thus prepared, and at the same time verifying the actual cash balance in the hands of the Treasurer. This daily check is reinforced by the actual count of the whole of the cash balance in the treasury on the last day of each month by the Collector himself.

143. Similarly, the safe custody of the treasure is secured by placing it conjointly in the hands of two independent officials, the Treasury Officer and the Treasurer, (one of whom, the Treasurer, gives substantial security), under the system of double locks.

144. *Imperial Bank of India.*—At almost every station where there is a local Head Office or a branch of the Imperial Bank of India, Government deposits its treasury balances therein. The actual procedure varies according to the agency whereby Government authorises the Bank to accept receipts or to make payments. Thus, in a Presidency Town there is no treasury, and the Account Officer alone issues the necessary authority. At other headquarters stations of provincial Governments there are both Account Officers and treasuries, and in some cases the Account Officer issues the necessary orders and in others the Collector.* There are also branches of the Bank at many stations where there are treasuries but no Account Offices. At such stations the necessary orders are issued by the Collector; the Bank sends a daily account with vouchers to the Collector who compiles monthly accounts in the ordinary way and sends them to the Account Officer. Wherever an Account Office intervenes, all payments exceeding Rs. 20 are, unless there is a special request for cash payment, made by cheques drawn on the Bank which sends a daily account with vouchers to the Account Officer, where a monthly compilation is made therefrom.

145. It is unnecessary to detail the classes of receipts and expenditure which can be accepted or paid by the Bank without authority, or on the authority of the Account Officer or the Collector. It may be said generally that the Bank deals direct with the receipts and expenditure of departments which have their own letters of credit and issue cheques against them, and in other cases it requires the authority either of the Account Officer or of the Collector in respect of both receipts and payments.

* NOTE.—The term "Collector" as used in this and the next paragraph includes the officer in charge of the treasury, by whatever designation he may be called.

146. It will be understood, therefore, that, where the Treasury business is conducted by a branch of the Imperial Bank of India, the Bank performs practically the whole of the cash duties which, in a self-contained Treasury, are conducted by the Treasurer. The daily reconciliation is, in consequence, effected between the Treasury Accountant's books and the Bank's daily returns, instead of between the Accountant's and the Treasurer's books.

147. *Check at the Treasury.*—In paragraph 130 it is stated that the Treasury Officer passes a payment order in writing on each bill presented for payment at the treasury, *provided it is in order*. The words in italics connote the check applied at the treasury to all bills before they are paid. The Treasury Officer has to satisfy not only himself but the Account Officer that the claim is valid; and has further to prove that the payee has actually received the sum charged. He has, therefore, to see that the claim is covered by general or special orders, that the voucher is in the proper form and properly drawn up, that it is signed (and if necessary countersigned) by the proper officer, that it is stamped if necessary, that the arithmetical calculations are correct, that the amount claimed is entered in words as well as figures, that there are no erasures and that all corrections and alterations are attested by the drawing officer. This general check is applied to all vouchers before they are paid at a treasury.

148. Its most important features are that this check is applied *before* payment, and that it secures that no claims not generally and *prima facie* admissible shall be paid at a treasury; and that all bills shall be drawn and receipted by the responsible officers, and shall be in the proper forms and arithmetically correct. While this check is an indispensable element of the general arrangements in India for preventing irregular payments from the public funds, it must not be confounded with the statutory audit scrutiny conducted by the Indian Audit Department, which is generally audit *after* payment, that is, *post-audit*, and includes a re-application of the checks applied at the treasury as well as a detailed examination of every item of expenditure with the sanctions, orders, and codes of the different departments.

149. *Classification in the Treasury accounts.*—As has already been stated in paragraph 93, the bills and vouchers before presentation to the treasury are required to be enaced by the department concerned with the proper account classification; and ~~from these enforcements~~ the transactions are broadly classified in the schedules in the case of revenue receipts and service payments, and in the List of Payments and the Cash Account in the case of Debt and Remittance transactions. For this purpose these documents have the broad account classification printed on them, and in the majority of cases the totals of the monthly receipts and payments are entered against these printed heads from the subsidiary registers maintained at the treasury. But a few items occur every month

which do not clearly fall under any of the printed heads, or in respect of which the full account classification is wanting, and these the treasury describes in detail in the body of the schedule or the Cash Account or the List of Payments and leaves to the Account Office to classify. The Account Office does this and also checks the classification already made by the Departmental Officers in the bills and vouchers and by the Treasury Officer in the accounts submitted by him.

150. *Treasury Inspection.*—Each treasury is inspected periodically by a Gazetted Officer deputed from the Audit Office. The Inspection Report is sent to the Collector in two parts, one relating to matters administered by the Deputy Controller of the Currency and the other dealing with all other points. The Collector reports the action taken by him on the first part to the Deputy Controller of the Currency and that on the second part to the Audit Officer. These officers bring to the notice of the Commissioner (and of the local Government, where necessary,) all matters in which they think that the action taken by the Collector is inadequate.

151. In matters of accounts and check at the treasury the Collector, with the Treasury Officer under him, is responsible to the Account Officer, whose instructions he is bound to obey. The Account Officer does not, however, ordinarily interfere with the Collector's responsibility for its practical working further than by constant correspondence with him for the removal of irregularities detected in the accounts and returns submitted. The Deputy Controller of the Currency controls the "resource" of the treasury, that is to say, he keeps it supplied with sufficiency of coins and notes, and, when necessary, removes surplus funds elsewhere. In all matters relating to Resource, the Collector is bound to carry out the instructions of the Controller of the Currency.

CHAPTER 9.

Procedure of Departments whose Initial Accounts are Compiled, in whole or in part, Departmentally instead of at the Treasury.

152. *Receipts credited in lump, and payments made by cheques.*—We have now arrived at the point where a treasury has compiled the month's transactions and has despatched the month's accounts to the Account Officer. These treasury accounts are copies of the initial accounts, and on them are based the subsequent compilation in the Account Office. It is obvious, however, that, unless these accounts contain sufficient details of the classification of the items by which the transactions enter into the general account, the compilation of the same in the Account Office will not be possible. Such information can be furnished by the treasury in respect of those transactions only for which details are given in the *cha'ans* which accompany the money for payment into the treasury or in the bill on which money is drawn from the treasury. But, as has been stated in paragraph 91, the receipts of some departments are paid into the treasury in lump and the payments for them are made by cheques, and the treasury is therefore not aware of the details of these transactions.

153. In respect of receipts of all civil departments, and of receipts under the Debt and Remittance heads, as well as all corresponding payments, except in respect of those departments which are served by the Pay and Accounts Offices under the Separation Scheme,* the detailed information is available at the treasury. In the accounts furnished by the treasury, these transactions are therefore entered in broadly classified detail, supported by vouchers which furnish such further information as is necessary for the compilation. But in respect of receipts of the Public Works, Military, Railway, Indian Posts and Telegraphs and Forest Departments, and of all payments of these and certain other departments, including those served by the Pay and Accounts Officers,* details are not made available to the treasury and those transactions therefore appear in the treasury account in lump only, by departments, without any detail. In the case of these departments the maintenance of separate initial accounts subsidiary to the treasury accounts is therefore required. These subsidiary initial accounts are prepared by the department concerned, and copies of them are rendered to the respective Account Officers in the same way as is done by the treasury. The present Chapter describes the relations of these departments with the treasury and also the arrangements in each for the preparation of the initial accounts.

* NOTE.—An exception to this will be found in paragraph 156.

(A) PUBLIC WORKS DEPARTMENT.

(a) CONSTITUTION OF THE DEPARTMENT.

154. *Organization.*—For purposes of Public Works Administration each province is divided into circles which are in charge of Superintending Engineers. Each circle is divided into divisions which are again subdivided into sub-divisions. The divisions are in charge of Executive Engineers, and the sub-divisions are in charge of Assistant Executive Engineers or upper subordinates who are called Sub-Divisional Officers. The Executive Engineers and Sub-Divisional Officers are also called Divisional and District Engineers in some provinces.

The Department as a whole is again generally divided into two Branches—Buildings and Roads, and Irrigation—each Branch in a province being generally in charge of a Chief Engineer who controls the Superintending Engineers.

(b) RELATIONS WITH THE TREASURY.

155. *Cheques and bills.*—Disbursing officers of the Public Works Department obtain from the treasury in two ways the cash which they require for disbursement,—either directly by bills drawn on the treasury or by means of cheques.

156. For the payment of pay and allowances of Government servants, bills are drawn on treasuries. In some provinces the funds to meet contingent charges are also obtained in the same manner. Such payments are brought to account in the treasury accounts in the same manner as similar payments for the Civil departments, other than those which are served by the Pay and Accounts Officers, and do not enter the Public Works accounts which the Divisional Officers submit to the Account Officer.

157. All other disbursements are made by Divisional Officers by cheques drawn on treasuries with which they are placed in account by the Account Officer. Letters of credit or assignments are not required for this purpose. A Divisional Officer may also empower his Sub-Divisional Officers to draw cheques against his own account with a treasury. He keeps a Pass Book in which each cheque paid by the treasury is recorded by the Treasury Officer. The Pass Book is sent periodically to the treasury for completion. At the end of each month, the Treasury Officer furnishes a certificate to the Divisional Officer showing the total amount of cheques paid during the month against his account. The Divisional Officer checks the certificate and the Pass Book with his accounts, makes out a list of cheques drawn but not cashed at the treasury, and then submits the certificate with a list of uncashed cheques to the Account Officer in support of his accounts. The paid cheques are

also sent to the Account Officer, twice a month,² by the Treasury Officer, in support of the lump debits in the lists of payments.

158. *Receipts*.—Receipts realized by the officers of the department are remitted as soon as possible in lump into the treasury. With each remittance a Remittance Book accompanied by the usual *cl alan* is sent to the treasury and the treasury acknowledgment is recorded in this book. At the end of each month, the Treasury Officer furnishes the Divisional Officer with a consolidated receipt for all remittances of the entire division during that month. The Divisional Officer submits this receipt to the Account Officer along with his accounts.

(c) PREPARATION OF INITIAL ACCOUNTS.

159. *Divisional and Sub-Divisional Offices*.—The Public Works administrative and accounts unit is the “division”, and it includes one or more sub-divisions. To each divisional office is attached an Accountant, who is a subordinate of the Account Officer but is posted to the Executive Engineer’s office to check and compile the divisional accounts under the supervision and responsibility of the latter.

(i) *Sub-Divisional Accounts*.

160. *Funds*.—A Sub-Divisional Officer is placed in funds in one of three ways:—

- (a) by a fixed imprest or permanent advance which he can recoup on depletion;
- (b) by transfers of cash from the divisional chest;
- (c) by a drawing account against the Divisional Officer’s account with a treasury.

161. He generally has a cash chest in which he places any departmental revenue received by him pending its remittance to the treasury, giving printed receipts for it signed by himself; and also, if he has a drawing account with the treasury, all sums drawn on cheques which he is unable to disburse at once to the payees. If he is financed by a fixed imprest or an advance from the Divisional Officer’s chest, he keeps the balance of the imprest or advance in his cash chest. Payments are only made on properly prepared bills, in cash from the chest in the case of imprests or advances, or by cheques where there is a drawing account. Cheques are usually drawn in favour of the actual payees (contractors, etc.), who present them at the treasury, but sometimes in favour of the officer himself to replenish his chest when he has small payments to make.

162. *Account Records*.—A Sub-Divisional Officer’s principal account records are—

- Cash book.
- Muster roll.
- Measurement book.
- Works abstract.

NOTE.—Little or no departmental revenue is as a rule collected in sub-divisions. The revenue registers will therefore be considered in the section devoted to the Divisional Officer's accounts—see paragraphs 171 *et seq.*

163. Cash Book.—The Cash Book is the primary account record. On it the whole accounts of the sub-division are based and all other accounts and returns are subsidiary to it. All receipts and payments are posted into it daily. The Sub-Divisional Officer regularly examines and initials it and is personally responsible for its correctness. It is balanced at the end of the month and signed by the Sub-Divisional Officer, who at the same time personally counts and certifies the cash balance.

164. Muster Roll.—The Muster Roll, as its name denotes, is a nominal roll or list of labourers employed daily on works. There is generally a separate roll for each work. Payments on muster rolls are made and witnessed by the executive officer of highest standing available on the spot, who actually counts the labourers, has the payments made in his presence and attests the roll.

165. Measurement Book.—The Measurement Book is an initial account of the greatest importance in the Public Works Department. It is the basis of all accounts of quantities (and qualities), whether of work done by daily labour or by the piece or contract, or of materials received. From the Measurement Book, or record of quantities (and qualities) made on the spot by personal measurement by the responsible executive officer, all bills for work (buildings and roads, bridges, canals, etc.), are prepared.

166. It may be useful to pause at this point and note in what the extreme importance of the Muster Roll and Measurement Book consists. They represent the point of contact between the concrete facts and the paper accounts, or between the payments and their equivalents. It is here that the accounts may be said to obtain their original vitality and reality. Their accordance with the facts, through all their subsequent changes of form, depends on their truth at this point; and it is on that account that attention is primarily directed to an examination of these initial documents during the annual inspection of Executive Engineers' offices by Audit Officers.

167. Works Abstract.—The Works Abstract records in detail the cash, stock and other charges on each work whether carried out by departmental agency or contract. In the case of major works, and in other specified cases where specially required by the Superintending Engineer, it shows also the progress of the quantities of work done. For manufacture operations, a Works Abstract is required for each operation, and in addition an account is kept of the quantities and values of the products of manufacture.

168. Store Accounts.—Besides the above, the Sub-Divisional Officers keep simple lists showing the quantities of each kind of stores received

and issued each day. At the end of the month accounts are prepared showing the total quantity received and issued under each class of article during the whole month. In these accounts the receipts are also classified according to the sources from which the stores are received and the issues according to the works to which they are issued.

169. *Monthly Sub-Divisional Accounts.*—The monthly sub-divisional accounts are prepared and sent to the divisional office as follows :—

The Cash Book and initial accounts of stores for a month are closed on the 25th or an earlier date prescribed by the Account Officer. On closing the Cash Book the Sub-Divisional Officer counts the cash in his chest and submits a Cash Balance Report to the divisional office. Copies of the Cash Book, supported by vouchers, are sent to the Divisional office twice a month or oftener as directed by the Divisional Officer, the copy relating to the last period of an account month being submitted with the Cash Balance Report. Within 3 days of the closing of the account of the month the Sub-Divisional Officer also submits the Works Abstracts and the month's accounts of stock and tools and plant, etc. He does not, however, consolidate the transactions into a compiled monthly account, this work being done in the Divisional office for the entire division. For such a consolidated account (*see* paragraph 177 below) the division and not the sub-division is the unit.

170. If the Sub-Divisional Officer is financed by an imprest, the Divisional Officer embodies the sub-divisional Cash Book in his own Cash Book ; if, however, the Sub-Divisional Officer has a drawing account on the treasury, or if cash is transferred to him from the divisional cash chest, his Cash Book is not embodied in the divisional Cash Book but the transactions are consolidated direct into the monthly accounts of the division.

(i) *Divisional Accounts.*

171. *Account Records.*—As in the case of the Sub-Divisional Officer, a Divisional Officer has a cash chest, a Cash Book, and Measurement Books, and also Muster Rolls for works which are directly under his charge, and Works Abstracts, and uses them in the same way. The foregoing remarks under these heads apply equally to him. He has also store accounts, and in some cases manufacture and workshop accounts. He receives revenue, and in the same way as the Sub-Divisional Officer does makes payments for works, etc., on properly drawn bills, by cheques, or, if the bills are for small amounts, in cash from his chest.

172. The main accounts which he keeps in addition to those kept in the sub-division are :—

- (i) The Contractors' Ledger.
- (ii) The Register of Works.
- (iii) The Transfer Entry Book.

173. Contractors' Ledger.—The Contractors' Ledger is a running account with each contractor, showing the amounts due *by* him for advances made to him, and *to* him for work done by him, and is closed and balanced monthly.

174. Register of Works.—The Register of Works contains a record of every important original work or repair showing the expenditure month by month compared with the estimate. In the case of major works, or in other cases where specially required by the Superintending Engineer, the expenditure is here recorded by sub-heads of works, by which is meant items of work such as brick work, doors and windows, etc., which are specified in the sanctioned estimate. The object of such a record is to show the Executive Engineer the rates at which these different kinds of work are carried on and to enable him to obtain the necessary sanction.

175. Transfer Entry Book.—The Transfer Entry Book contains a record of all transfer entries included in the accounts of the Division, as for example, work done or payments made by other Divisions or Departments, write-back of an erroneous debit or credit, etc. The book is posted as soon as the transactions become known from advices of debit, transfer entry orders, etc. In this book is also entered the credit on account of cheques drawn during the month.

176. Revenue Accounts.—The main records as regards revenue are—

- (i) Demand and realization registers of public works revenue collected in the Civil Department. (These refer principally to irrigation revenue.)
- (ii) Rent registers and demand lists for the recovery of rents of Public Works buildings occupied by civil and military officers.

These are the two principal items of revenue in the Public Works Department. Other miscellaneous Public Works revenue is credited in the Cash Book as it occurs.

177. Monthly Divisional Accounts.—The cash and stock accounts of the Divisional office for a month are closed on the last working day of the month. On closing the Cash Book, the Divisional Officer also counts the cash in his chest and prepares a Cash Balance Report. The Cash Balance Reports for the entire division enable the Divisional Officer to certify the correctness of the cash balance of the division as given in his Monthly Account submitted to the Account Officer. The Transfer Entry Book is also closed as soon as possible after the expiry of the month. The cash, stock and transfer entry transactions of the entire division are then posted in the relevant schedule dockets, registers and schedules which are abstracted in the Monthly Account submitted each month to the Account Officer between the 7th and 10th of the month following that to which it relates.

CHAP. 9.] DEPARTMENTS WHOSE INITIAL ACCOUNTS [178-180
ARE COMPILED DEPARTMENTALLY.

178. This account is accompanied by schedules (supported by vouchers), the more important of which are:—

- (i) Stock Account prepared from the Sub-Divisional Officers' accounts of quantities of stock received and issued during the month after their valuation in the divisional office.
- (ii) Schedules of Works Expenditure which are prepared from the Sub-Divisional Works Abstracts completed in the divisional office as regards stock and transfer entry transactions.

(B) MILITARY DEPARTMENT.

(a) RELATIONS WITH THE TREASURY.

179. *Cash Collections and Funds.*—Military receipts paid into a treasury have to be accompanied by an order for receipt signed by one of the responsible officers of the Department whose names are on an approved list. Funds are obtained by annual assignments on treasuries issued on application by the Controllers of Military Accounts. The probable requirements of each month are specified in these assignments, and it is an essential feature of the arrangement that the payments at any stage shall not exceed the proportionate provision to date made in the assignment. Drawings against the assignments are made by cheques which, as usual, are sent by the treasury to the Account Officer in support of the lump debits in the treasury List of Payments. In case of emergent need, funds outside the annual assignments can also be obtained under special arrangements.

(b) PREPARATION OF INITIAL ACCOUNTS.

180. *Organisation.*—The Military Administrative and Accounts unit is the "District", which is entirely distinct from the Civil "District" in charge of a Collector or a Deputy Commissioner, or the Public Works Division in charge of an Executive Engineer. There are ~~four~~ fourteen Commands comprising fourteen Military Districts and two Independent Brigade Areas in India. The accounts, internal audit, and disbursements of one or more of these units are under an Account Officer called a 'Controller of Military Accounts.' The actual arrangement is as follows:—

I. NORTHERN COMMAND, RAWALPINDI—	Administrative Headquarters.	Accounts Headquarters.
(1) Rawalpindi District . . .	Rawalpindi . . .	} Controller of Military Accounts, Northern Command, Rawalpindi. Controller of Military Accounts, Lahore District, Lahore.
(2) Waziristan District . . .	Dera Ismail Khan . . .	
(3) Kohat District . . .	Kohat . . .	
(4) Peshawar District . . .	Peshawar . . .	
(5) Lahore District . . .	Lahore . . .	

	Administrative Headquarters.	Accounts Headquarters.
II. EASTERN COMMAND, NAINITAL—		
(6) United Provinces District . . .	Meerut . . .	} Controller of Military Accounts, Eastern Command, Meerut.
(7) Allahabad Independent Bri- gade Area.	Luaknow . . .	
(8) Presidency and Assam District	Calcutta . . .	
III. WESTERN COMMAND, QUETTA—		
(9) Baluchistan District . . .	Quetta . . .	} Controller of Military Accounts, Western Command, Quetta.
(10) Sind and Rajputana District . .	Karachi . . .	
IV. SOUTHERN COMMAND, POONA—		
(11) Deccan District . . .	Secunderabad . . .	} Controller of Military Accounts, Southern Command, Poona.
(12) Bombay District . . .	Bombay . . .	
(13) Central Provinces District . . .	Mhow . . .	
(14) Poona Independent Brigade Area.	Poona . . .	
(15) Madras District . . .	Wellington . . .	Controller of Military Accounts, Madras Dis- trict, Bangalore.
(16) Burma District . . .	Maymyo . . .	Controller of Military Accounts, Burma District, Maymyo.

181. At the headquarters of each of the four Commands a senior officer of the Military Accounts Department, immediately subordinate to the Military Accountant General, is posted as Controller of Military Accounts, who in addition to being the Controller of Military Accounts of the account units under his direct control, is the chief authority for accounts and internal audit of the Command and is empowered to overrule a decision on internal audit given by another Controller of Military Accounts in that Command. He also arranges for the test check of accounts of one of the Controllers' offices in the Command every year. He is also the Financial Adviser to the General Officer Commanding-in-Chief of the Command. The District Controller, besides being the Financial Adviser to the General Officer Commanding the District, is himself the officer responsible for the preparation, payment, internal audit and compilation of accounts. He is also responsible for the preparation of the periodical account of the District submitted to the Military Accountant General and the Auditor General, and also for the disbursement of bills and the consolidation of accounts in connection with Military Works expenditure. The monthly pay accounts, travelling allowance claims of all the units, officers and establishments in the District, and also the Store accounts under the cost accounting system

of the Supply and Store Depots, are prepared locally by Accountants and accounts clerks of the Military Accounts Department attached to each unit. On receipt of claims from unit Accountants, etc., payments are made by Controllers after a careful preliminary check subject to detailed check conducted subsequently. In addition to the detailed check of accounts in his office, the Controller arranges for the periodical local inspection of the store accounts maintained in units. The duties of the District Controller combine the functions of a Civil Treasury Officer and of an Account Officer of a Province. The Controller of the Presidency and Assam District, Calcutta, is charged with the additional duties of dealing with Railway charges and with the accounts of Military Service Funds.

182. Funds are obtained by disbursing officers by annual assignments (paragraph 179), and payments are made by cheques on the civil treasuries.

183. In addition to the eight Controllers of Military Accounts specified in paragraph 180 above, who are mainly concerned with the pay and store accounts of combatant and departmental units in their respective districts or areas, (excepting ordnance and clothing factories and marine accounts,) there are Controllers for Royal Air Force Accounts, Army Factory Accounts, Military Pension Accounts, Northern and Eastern Commands, Military Pension Accounts, Southern and Western Commands, and Marine Accounts, who are stationed at Ambala, Calcutta, Lahore, Mhow and Bombay, respectively. These Controllers deal with the accounts, disbursements, internal check and compilation of accounts of their respective services.

184. For the preparation of Factory accounts one account office under a Deputy Assistant Controller is attached to each factory in the following stations:—

Two Factories at Ishapore and one each at Cossipore, Jubbulpore, Cawnpore, Kirkee, Aravankadu, Shahjahanpur, Madras and Rawalpindi. The Controller of Army Factory Accounts arranges for the periodical local inspection of the accounts of these factories.

The Controller of Marine Accounts, Bombay, is the Financial Adviser to the Director Royal Indian Marine, and is responsible for the maintenance of manufacture and store accounts, and for the distribution of wages of the Bombay Dockyard.

185. The Military Accountant General, who is immediately subordinate to the Financial Adviser, Military Finance, is the head of the Military Accounts Department. To ensure the maintenance of the work of the Military Accounts offices at a high standard of efficiency, there is a Deputy Military Accountant General, attached to the Office of the Military Accountant General, who periodically visits the various Military Accounts offices.

(C) RAILWAY DEPARTMENT.

(I) RAILWAYS—OPEN LINES.

(a) Relations with the Treasury.

186. *Cash Collections and Funds.*—Each railway station remits its cash collections daily to the Account Officer of the Railway at headquarters, who makes consolidated payments into the headquarters Government treasury. At the end of each month a consolidated receipt is furnished by the treasury to the Chief Accounts Officer. A few large stations pay their collections direct into the nearest treasury. Funds are obtained on cheques drawn against monthly letters of credit in favour of the Chief Accounts Officer of the Railway.

(b) Preparation of Initial Accounts.

187. *Government-worked Railways.*—In this Chapter it is proposed to deal only with the initial accounting system in the Railways which are owned and worked by Government, and the following paragraphs relate exclusively to such Railways; but it may be added that the general account procedure of other Railways is much the same as that of Government-worked Railways.

188. *Receipts.*—On Railways the revenue unit is the station, in charge of a Station Master, who remits his cash collections daily to the Account Officer and sends him monthly accounts of receipts. Vouchers relating to foreign claims of Railways which are party to the Railway Clearing Account Office are sent with supporting lists to that office for adjustment.

189. Each station maintains two main Cash Books for coaching and goods traffic respectively. There are also a number of subsidiary registers in which are recorded the details of the collections under each head of traffic. Thus, under coaching, a separate account is maintained in respect of passengers' tickets, excess fares, parcels, luggage, horses, carriages and dogs, etc.; and, under goods, on account of both inward and outward consignments. Each of these accounts is again sub-divided into two parts according as the traffic is "local," that is, beginning and terminating on the home Railway, or "foreign," that is, beginning or terminating on another Railway.

190. At the close of the month each Station Master prepares two cash accounts called balance sheets, one for coaching and the other for goods transactions. The entries for both receipts and payments, (that is, remittances to the head office) are taken from the Cash Books and subsidiary registers and are supported by vouchers and schedules. The closing balances represent the cash in hand or sums recoverable for which the Station Master is held accountable.

191. Payments.—The Station Master makes no payments, nor indeed do any railway officers on open lines except in special cases. Payments are made by the Account Officers, after checking the bills, by the agency of a staff of travelling pay clerks. The spending units are the various departments of the Railway, namely, Agency, Engineering, Traffic, Locomotive, etc., or the Divisions where the Divisional system has been introduced. As checked and paid, the bills are entered in the primary registers and books, from which the monthly accounts of the Railway are compiled.

192. The executive departments responsible for the maintenance and working of open lines of Railway are not permitted (except in certain special instances) to make their own purchases of materials required by them in their operations. All such purchases are centralised in the Stores Department under the control of a Controller of Stores by whom issues of materials are made to executive departments as required. Initial documents connected therewith are submitted to the Account Officer, by whom the Stores Accounts are compiled, the Controller of Stores maintaining numerical records of stock only.

(II) RAILWAYS UNDER CONSTRUCTION.

193. Organisation—For administrative purposes a railway line under construction is divided into a number of divisions, each being in charge of an Executive Engineer who is responsible for all the expenditure incurred in his division whether by himself or by his subordinates. As in the case of the Public Works Department, each railway division is divided into a number of sub-divisions which are in charge of Assistant Engineers or upper subordinates.

194. The procedure followed in accounting for the receipts and payments of a Railway under construction is exactly similar to that described above in the section dealing with the Public Works Department. Similar records are maintained both by the Executive Engineer and his Sub-Divisional Officers, and monthly accounts in the same form are rendered to the Account Officer.

(D) INDIAN POSTS AND TELEGRAPHS DEPARTMENT

(I) POSTAL SECTION.

(a) Relations with the Treasury.

195. Cash Collections and Funds.—Post Offices have one pass book with the treasury for both receipts and payments, which is sent to the treasury with all transactions, as they occur, and attested by the Treasury Officer. Receipts are paid into the treasury with the usual *chalan* and the acknowledgment is given in the pass book. Letters of credit are issued by the Accounts Officers, the Deputy Accountants General,

Posts and Telegraphs,—as required. Funds are drawn on simple receipts which support the debits in the treasury List of Payments. At the end of the month each Post Master sends a copy of his pass book to the treasury, where it is signed as correct by the Treasury Officer. In paragraph 90 above it has been said that departmental receipts are paid direct into the treasuries. An exception is permitted in the case of post offices to facilitate Money Order and Savings Bank transactions.

(b) *Preparation of Initial Accounts.*

196. *Organisation and Accounts Records.*—The account unit is the Head Post Office, which incorporates in its accounts the transactions of the sub and branch post offices under it. The primary accounts maintained by a Head Post office are—

- (a) The Treasurer's Cash Book.
- (b) The Head office summary.
- (c) The Head office Cash Book.

197. *Treasurer's Cash Book.*—In each Head Post office one of the clerks is appointed Treasurer and receives and pays all money. All valuables are kept in a safe, under double locks, one key of which is held by the Post Master and the other by the Treasurer. All transactions of receipts and payments (including stamps) are entered in the Treasurer's Cash Book as they take place. At the close of the day the Cash Book is totalled and balanced and signed by the Post Master, who at the same time verifies the cash balance.

198. *Head office summary.*—This is a classified account of cash receipts and payments of the head office and is written up daily by the Treasurer, its daily balance agreeing with the daily balance of the Treasurer's Cash Book. As each transaction of receipt and payment occurs it is entered, not only in the Cash Book, but also by an independent clerk in subsidiary registers, such as Letter Postage Account, Register of Miscellaneous Receipts and Payments, Register of Cash Certificates, Money Orders and Savings Bank Journals, Register of Treasury transactions, etc. The daily totals of these subsidiary registers are taken into the Summary. In this respect the system is similar to that of the Civil Treasury (Chapter 8). In addition to the account items the Summary contains a memorandum of items kept out of account in the joint custody of the Post Master and the Treasurer, as for example, undisbursed pay and allowances, permanent advances, value-payable money orders remaining in hand, etc. It is signed daily by both the Post Master and the Treasurer.

199. *Head office Cash Book.*—This is a classified record of the daily transactions, not only of the head office, but also of the sub and branch offices under it. The entries are made daily by the Post Master from the head, sub and branch office summaries (the two latter prepared in the head office from the sub and branch office accounts), and progressive

totals are given from day to day. A daily balance sheet is also prepared to effect a reconciliation between the head office Cash Book and the Treasurer's Cash Book.

200. On the first of each month a cash account is sent by each head office to the Deputy Accountant General concerned. The entries are taken from the head office Cash Book and a statement is given at the foot of the account showing total drawings from and remittances to each treasury with which the head office (including its sub and branch offices) has transactions. The cash account is signed by the Post Master and is accompanied by a cash balance report in the prescribed form, as well as vouchers and schedules.

201. *Periodical Returns.*—In addition to the monthly cash account and cash balance report, the head office sends weekly or fortnightly, as the case may be, to the Deputy Accountant General concerned, journals of Money Order, Savings Bank and Cash Certificate transactions of its own and its sub and branch offices supported by vouchers.

202. *Railway Mail Service.*—In the case of the Railway Mail Service the account unit is the Head Record Office and the primary account maintained in the office is the Cash Book in which the transactions with the local Head Post Office are recorded. Cash accounts are submitted twice in the month by each Head Record Clerk to the Account Office, which incorporates the accounts in the Classified Abstract by the Head Post Office concerned.

(II) TELEGRAPH SECTION.

(a) *Relations with the Treasury.*

203. *Cash Collections and Funds.*—There is a separate pass book for receipts, which, together with a *chalon*, is sent to the treasury with each remittance, and is signed by the Treasury Officer. Telegraph officers obtain funds from treasuries by drawing money on cheques without letters of credit. The debits in the treasury list of payments are supported by the paid cheques.

(b) *Preparation of Initial Accounts.*

204. *Account Records.*—Separate accounts are maintained by each Divisional Engineer and each officer in charge of a Radio or Signal office. The former is responsible for all receipts and expenditure incurred in connection with the construction, maintenance and repair of telegraph lines within his jurisdiction, while the latter has to account for all receipts and disbursements of his own office.

205. The primary account record in the case of Divisional, Radio and Signal offices is the Cash Book which contains a complete record of

the cash transactions as they take place. At the close of the month a classified account, called the Primary Abstract of the Cash Book, is prepared and sent to the Deputy Accountant General, Posts and Telegraphs, for audit and further compilations.

206. Store Transactions.—A central depot in Calcutta, with branches in several places in India, maintains a very large stock of materials and instruments for the use of the department. Detailed ledgers for these stores are maintained by the Account office, to which the depôts render daily accounts of receipts and issues. Monthly adjustments are made in the Account Office debiting the proper account heads with the net value of stores issued or freight charges incurred.

207. Local Accounts.—In respect of construction, Divisional Engineers of Telegraphs stand on a footing analogous to that of Executive Engineers of the Public Works Department. There is, therefore, a similar procedure in respect of Registers of Works, Muster Rolls, and Contractors' Ledgers.

(E) FOREST DEPARTMENT.

(a) Relations with the Treasury.

208. Cash Collections and Funds.—The Forest Department does not use a pass book for treasury receipts or payments. Receipts are sent to the treasury with a *chalan* in duplicate, one copy being retained with the treasury, while the other is returned as an acknowledgment. Funds are obtained on cheques against letters of credit issued quarterly by the Deputy Controller of the Currency. It is optional, however, with the local Government to abolish letters of credit for Forest Officers, and to allow them to draw cheques on treasuries with which they may be placed in account by the Account Officer. A consolidated receipt for the month's remittances is furnished by the treasury to the Divisional Forest Officer. The debits in the List of Payments are as usual supported by the paid cheques.

(b) Preparation of Initial Accounts.

209. Organisation.—As in the Public Works Department, the Forest administrative and accounts unit is the "division", which includes one or more sub-divisions. The division is under the charge of a Divisional Officer, on whom rests the responsibility for the effective internal check and control of the accounts, of the entire division, in respect of both revenue and expenditure.

210. The Conservator, who is in charge of a "circle" comprising number of "divisions", is responsible for exercising a strict control over the whole outlay for Conservancy and Works and for examining the charges on account of travelling allowance and contingencies.

Departments, and one dealing with all Central Departments. The receipts of revenue and the transactions relating to Debt and Remittance heads are handled by the treasury in the usual way, but for the disbursement of departmental expenditure bills are presented to the Pay and Accounts Officers who, after checking the validity of the claims, issue cheques in payment of the bills which are retained in the Pay and Accounts Office. The Treasury Officer furnishes at the end of the month (a) to each Pay and Accounts Officer a schedule of receipts and a schedule of cheques paid pertaining to each Department served by the latter, and (b) to the Deputy Chief Accounting Officer, United Provinces, a Cash Account and a List of Payments for the whole receipts and payments during the month. Each Pay and Accounts Officer then compiles the accounts of the department or departments served by him for submission to the Deputy Chief Accounting Officer who compiles the account of the whole Province.

217. As regards (ii), the procedure is the same as stated above, the only difference being that the monthly compiled accounts of these Pay and Accounts Officers are sent to the Accountant General, Central Revenues, in whose books they are incorporated.

218. The Accounts of the departments mentioned at items (iii) and (iv), which are Central Departments, are under the charge of the Audit Officer, Indian Stores Department. The receipts of these departments are paid into the treasury in the usual way, except that remittances made by the departmental officers of the Northern India Salt Revenue Department are entered in a pass book and accompanied by a *chalan*. Payments to Officers of these departments are made by the Audit Officer, Indian Stores Department, by means of cheques drawn against letters of credit issued by him. Receipts paid into the several treasuries appear in their Cash Account submitted to their respective Account Officers, who pass on the credits together with the necessary documents, if any, to the Audit Officer, Indian Stores Department, for final adjustment in his books.

CHAPTER 10.

The Original Records. The Basis of Accounts and Audit.

219. *Accuracy.*—It is the duty of audit to take all possible steps to ensure that the accounts represent the actual state of affairs. The accounts of the Civil, Public Works and Forest Departments (except in the United Provinces and the North-West Frontier Province) are compiled in the combined Audit and Account Offices, and so also are those of the Indian Posts and Telegraphs Department; and it is, therefore, possible for Audit to certify that, throughout the whole system, these accounts are, to its satisfaction, accurately built up from the records submitted by the treasury, or other departmental officers. In the case of Accounts which have been separated from Audit the compilation made by the Account Office is checked by the Audit staff, and in these cases also audit is able to certify to the correctness of the compilation from the records submitted to the Account Office by other Officers and from those which were already in its possession.

220. *Vouchers.*—It has been shown in Chapters 8 and 9 that the accounts submitted to the Account Office by the treasury or departmental officers are copies of the initial accounts supported by the necessary vouchers. Thus, the major portion of the original records, namely, the initial accounts and other books or papers on which these accounts are based, are retained in the offices where they originate. Except, therefore, the vouchers received with the monthly accounts, the position in regard to which is explained in the following two paragraphs, the original records are not available either for Accounting or for Audit when dealing with the compilation at a Central Office. It is obvious, however, that, unless the original records represent facts, the accuracy of the subsequent work performed on the basis of these records is of no avail. It is most important, then, to see how far Audit is able to ascertain the accuracy of the original records.

221. As has already been stated, every Government payment is made on a document called a voucher (or an acquittance) which gives the amount, nature, and period of the payment and all other details necessary for its complete identification; and contains a receipt of acknowledgment or acquittance by the person to whom the payment is due. This system, whereby the payer obtains documentary evidence from the payee in proof of the payments made by him, is universal in both public and commercial accounts. From the point of view of the payer the document is called a voucher or acquittance; from that of the payee a receipt. Where payment on a bill is made by cheque the paid cheque forms an additional voucher in support of the actual payment made in cash. It is the duty of Audit to enforce this system, that is, to see that for every payment there is a voucher in proper form, properly

drawn up, arithmetically correct, and receipted by the proper person. In the case of payments made on bills, whether departmentally or at the treasury, the preliminary check in this direction is made at the departmental office or at the treasury, and the vouchers (except those for petty payments) are then submitted with the monthly accounts and are finally checked by the Audit staff.

✓ 222. *What Vouchers represent.*—The Public Works or Railway Engineer counts coolies and records their numbers ; he measures construction works and enters the figure in a note-book ; the Civil or Military Officer musters and enumerates the establishments, corps, etc., he has under him, and prepares and signs a pay bill for them ; he signs or countersigns a travelling allowance bill for himself and others founded on special or general knowledge that the journeys claimed have actually been performed ; he submits a claim for contingencies or supplies after seeing personally (or through others) that the articles charged for are required for the public service and have actually been purchased and brought into public use : the Collector counts cash or stamps or opium in his treasury and thus proves his accounts for the month, etc., etc. At these points the accounts spring direct from the facts ; at these points they obtain whatever vitality and reality they possess ; their accordance with the facts, through all their subsequent changes of form, depends on their truth at these points. Generally speaking, in India, Audit does not come in here at all ; the executive and administrative disbursing officers alone verify the initial record with fact ; the accordance of the initial record with fact is accepted by Audit on their statement and responsibility, except where there is collateral evidence of error.

223. *Receipts and Certificates.*—What Audit does in all these cases is to require receipts of the payees, certificates of the disbursing officers and the countersignature of controlling officers. Thus for construction it requires receipts of the contractors and others to whom large payments are made (not receipts given by individual labourers) ; certificates given by the disbursing officers of measurements of work done, of counting of labourers and of receiving supplies and of completion of work ; and, in the case of works for which contracts are executed, the rates approved by the authorities sanctioning the contracts. For contingencies, receipts given by private payees (except those for petty amounts) are obtained, and certificates from the disbursing officers that the payments were necessary for the public service and have actually been made : also, in some cases, the disbursers' certificates are re-inforced by countersignature of the bills by superior officers. For pay, receipts are obtained from gazetted officers, and for non-gazetted officers certificates (from heads of offices) that they have actually been present on duty, and that previous pay has been paid to them and their receipts recorded. For leave and pension payments, receipts only are necessary : for travelling

allowances, receipts (not from non-gazetted officers), technical certificates and countersignature, etc., etc.

- ✓ 224. The contact of the Audit office with the facts is, therefore, through receipts and certificates, re-inforced in some cases by counter signature. It has no opportunity of seeing the facts with its own eyes and comparing the bills with them. The question therefore arises how far receipts and certificates guarantee the facts. It may be said at once that while they are much better than nothing, they cannot guarantee the facts with absolute accuracy.
- ✓ 225. *Impossibility of verification by Audit office.*—It must be admitted, however, that it would be impossible for Audit to verify the initial facts unless a representative of that Department were present at every act vouched by the certificates enumerated in paragraph 223 above. Those acts include the payment of the pay and allowances of, and the journeys performed by, every Government servant, the measurement of all work done by and for the Public Works Department, and the verification of Government stores of all descriptions, using the word “ stores ” in its widest sense to include coin, stamps and other valuables. It is obvious, then, that the Audit Department could not verify the actual facts without a very much larger establishment, and the extra expenditure thereby involved would undoubtedly be disproportionate to the advantages obtained.
- ✓ 226. *Part played by countersigning and controlling officers.*—The recognition of this fact had led to the check exercised by Audit being supplemented to a large extent by executive check. Work done and paid for in the Public Works Department is inspected by superior officers of the Public Works Department, travelling allowance bills are checked by countersigning authorities who are in a position to have knowledge of journeys performed, bills for important contingent expenditure are countersigned by controlling officers who can verify and judge the necessity for such expenditure and the proper rates of payment and can satisfy themselves at inspection that the materials billed for have been purchased.
- ✓ 227. As regards the verification of original records relating to the receipt of money, where such receipts are required to be audited by the Indian Audit Department, the position has been explained in Chapter 12.
- ✓ 228. Because this work is not done in the Indian Audit Department, there is a tendency in the Department to overlook its importance and to consider that it would be better done if it were undertaken by the officers of the Department. But, although the latter have the technical training in checking accounts, executive officers have an intimate knowledge of the details of the work done and are in a better position to verify the facts and to check the economy of the expenditure passed by them than outside officials would be. Audit has, therefore, to depend largely upon

the executive in this respect. It is, however, the duty of Audit Officers to scrutinise, with reference to the records submitted for audit, the manner in which the executive officers discharge their financial responsibilities; and, in order to supplement the scrutiny thus made centrally, a local inspection, including a test audit of the original records of the Treasuries, Public Works Divisions, and (where possible and desirable) other important account units, is conducted periodically by the Audit Office. (See Chapter 35.)

229. Audit is, however, not entitled to make independent enquiries among the tax-payers or the general public, as such action is held to be an encroachment on the functions of the executive. Audit should confine itself to calling upon the executive to obtain and furnish the necessary information; and, in cases of difficulty, it should confer with the executive as to the best means of obtaining the evidence which it requires.

230. *Detection of fraud.*—It has already been pointed out that commercial audit regards the detection of fraud as one of its main duties. But such detection is almost impossible except at the verification of the original record, and so the detection of fraud in the Audit office in India is very rare. And yet it must not be hastily assumed that this indicates a defect in the system of Government audit in India. The detection of fraud by an executive officer is frequently due to the letters issued by the Audit office plainly indicating that something is wrong. Thus in one case the Audit Officer pointed out that in a certain office there were frequent violations of the important rule that money should not be drawn in advance of requirements. This led the head of the office to examine his account carefully with the result that he detected frauds amounting to over Rs. 3,000. Numerous similar cases can also be quoted showing that action taken by the Audit office has led to the detection of fraud. Frauds are also detected at the local inspections mentioned in paragraph 228; which give the expert eye of the trained auditor an opportunity to detect in the original records suspicious factors which could not come to notice in the Central Audit Office.

231. It is essential to investigate frauds carefully because valuable lessons can almost always be learnt from them. There is a tendency to suggest the framing of new rules to prevent each particular fraud. This tendency should be resisted: there are quite enough rules already, and, if the preventive machinery is made too elaborate, the chances are that it will not work efficiently. The main point in every fraud investigation must be to ascertain whether the exercise of ordinary common sense, such as one ought to expect from every Government officer, and the application of existing rules, would not have rendered the fraud impossible. The importance of this line of investigation should always be borne in mind, because fraud is prevented far more by punishing the

defalcator, and the officer whose negligence rendered the fraud possible, than by adding to the enormous number of rules already in existence. But fraud investigation *may* sometimes indicate a defective system of check and then the revision of the system is essential.

232. *Records submitted to the Account Office.*—The main monthly records submitted to the Account office by each treasury are, as already stated, the cash account and the List of Payments with supporting schedules and vouchers.

233. The important feature of the Cash Account is the abstract which starts with the opening balance, shows the total receipts and payments, and thus works up to the closing balance. The actual cash balances of the treasury and sub-treasuries are also shown in detail so that the account and the cash balance can be verified. The List of Payments together with the schedules appertaining to it, shows the vouchers required, the vouchers forwarded, and those still to be submitted. It is also to be seen that the details in each work up to the totals and that the details agree with the supporting documents.

234. Similar accounts are also submitted to the Account office direct by officers who draw money from the treasury by cheques and keep the detailed accounts of the payments made, and similar checks are applied in those cases also.

235. In checking the vouchers furnished in support of the accounts the more important points to which the auditor devotes his attention are :—

That the vouchers are in the prescribed form, that they are duly receipted by the payees, that they are in original, that a brief abstract is given in English under the signature of the drawing officer on all purely vernacular vouchers, and that vernacular signatures are transliterated, also that sub-vouchers contain notes of dates of payment.

- (b) That they are numbered with reference in the number in the List of Payments, schedule, Schedule Docket or other account, as the case may be.
- (c) That the details work up to the totals and that the totals are in words as well as in figures.
- (d) That they bear a Pay order, signed by the Treasury Officer in the case of vouchers cashed at treasuries or by the responsible disbursing officer in the case of other vouchers.
- (e) That they are stamped "Paid."
- (f) That there are no erasures, and that any alterations in the totals are attested by the officer concerned as many times as they are made.

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- (g) That receipt stamps are affixed to vouchers, where necessary, and that they are punched.
 - (h) That, except in cases in which it is specifically authorised, no payment is made on a voucher or order signed by a subordinate instead of the head of the office himself, or on a voucher or order signed with a stamp; and that copies of sanctions are certified by the sanctioning officer or by a gazetted officer authorised to sign for him.
 - (i) That, in all cases in which it is prescribed that agreement should be effected between two different documents, the fact of the agreement is noted on both the documents and initialled by the accounts clerk who makes the agreement.
 - (j) That if a treasury voucher be paid by transfer, it is stamped as having been so paid, that the head to which the amount is credited is noted on it, and that the credit is traced in the cash account when possible.
 - (k) That Fund and Income Tax deductions have been correctly made.
 - (l) That, except in certain specified cases, no claim against Government not preferred within six months of its becoming due has been paid without the sanction of the Account Officer.
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CHAPTER 11.

Classification of Receipts and Expenditure in the Government Account.

236. Main principles of Classification.—One of the most distinctive features of the public account system of India is the minute elaboration with which the financial transactions of Government, under both receipts and payments, are differentiated and classified.

237. The main divisions of Government accounts are :—

- (i) Revenue.
- (ii) Capital.
- (iii) Debt.
- (iv) Remittance.

(i) The first division deals with the proceeds of taxation and of payment for services rendered by Government, and with the expenditure therefrom, the result of which represents the surplus or deficit which determines the feasibility of reduction, or the necessity for increase, of taxation. (ii) The second division deals with expenditure met usually from borrowed or accumulated funds, such expenditure being incurred with the object either (a) of increasing material assets or (b) of reducing recurring liabilities, such as those for future pensions by payment of their capitalised value. It also deals with final receipts of a capital nature intended to be applied to capital expenditure, such as contributions received from Indian States or Railway Companies for railway construction. (iii) The third division comprises receipts and payments in respect of which Government becomes liable to repay the monies received or has a claim to recover the amount paid, together with the repayments of the former and the recoveries of the latter. (iv) The fourth and last division embraces all cash remittances from one treasury to another, besides those which are necessitated either by the constitution of the Accounts Department or by the existence of the Home Treasury. Credits and debits taken to those heads in the first instance are cleared eventually by adjustment under final heads.

238. The main unit of classification is the Major Head, such as ' 5—Land Revenue ' or ' 26—Police '. As was explained in paragraph 16, each such item is determined either by the administrative classification of the activities of Government, (that is to say, by departments,) or by the classification of the nature of the transaction. There are about 45 Major Heads under *Revenue*, 57 under *Service*, (the Expenditure Section corresponding with Revenue), 30 under *Capital*, and about 62 on each side of the account for *Debt and Remittance* heads. These Major Heads are combined into Groups called Sections which have specified

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titles such as *A.—Principal Heads of Revenue* ; *B.—Railways* ; *C.—Irrigation, Navigation, Embankment and Drainage Works, etc., etc.*, the Capital sections being distinguished from the corresponding Revenue sections by double letters, such as AA., BB., CC., etc. There are 12 such Sections under *Revenue*, 12 under *Service*, 7 under *Capital* and 9 under *Debt and Remittance* heads. The Major Heads are sub-divided into Minor Heads numbering several hundreds, and the *Minor Heads* into *sub-heads* and *detailed heads*, which run into thousands.

NOTE.—The minor and other subordinate heads of accounts prescribed for the classification of expenditure in the general accounts are not necessarily the same as the sub-heads and other units of grants or appropriations which are selected by the Finance Department for Demands for Grants and the Appropriation Accounts (see paragraphs 319 and 320).

239. The Capital Section of the accounts may be sub-divided into—

- (1) Expenditure charged to revenue.
- (2) Expenditure not charged to revenue.

The meaning of these expressions will be clear from the following extract from Circular No. 3 P. W., dated 24th September 1921, of the Government of India, Public Works Department :—“ When the budget is prepared, the local Government estimate, on the one side, the revenue likely to be realised during the year, and on the other side, the expenditure which they propose to incur from this revenue. The account of this revenue and expenditure is known as the revenue account and such expenditure is commonly described as ‘ charged to revenue ’ which is synonymous with saying ‘ charged within the revenue account ’. Expenditure ‘ not charged to revenue ’ is similarly synonymous with expenditure ‘ charged outside the revenue account ’. Resources outside the revenue account take the form of loans, accumulated balances of previous years, the revenue surplus of the year in question after all expenditure chargeable to revenue has been met, and certain other sources of income not classed as revenue.”

240. Outside these thousands of heads of classification or account, there is a further broad division into Central and Provincial, the former consisting of revenue and expenditure administered by the Central Government and the latter including the revenue and expenditure entrusted to the control of a local Government of a Governor's province under the Government of India Act. Provincial expenditure is again divided into “ Reserved ” or “ Transferred ” according as the subject on which it is incurred is administered by the Governor in Council or the Governor acting with Ministers. The division of subjects into Central, Provincial Reserved and Provincial Transferred is determined according to the classification given in the Devolution Rules. The expenditure under these heads is further classified, under the Government of India Act, into Voted or Non-voted, according as it is subject to the vote of the

legislature or not. A more detailed examination of this subject will be given in Chapter 15.

241. Purpose of detailed classification.—The object of all this elaborate classification is to secure the utmost possible uniformity of accounting amid the immense volume and variety of the financial transactions of the Government of India; and thereby to render possible, not only reliable comparisons between the accounts of different localities and periods, but especially the preparation of budget estimates, or forecasts of receipts and payments. (See paragraphs 103 and 104.) Classification carried to this extent also compels each disburser to a minute periodical review of the public receipts and payments in his charge, and so makes for effective financial control and economy.

242. The Central Government (including the minor local Governments, except Coorg,) the local Governments of Governors' provinces, and Coorg, are separate Governments for purposes of classification of revenue and expenditure. Subject to certain restrictions in regard to inter-Governmental adjustments, the broad principle which governs classification generally is that the head to which a receipt or payment belongs has closer reference to the department in which it occurs than to its objects or grounds.

243. Responsibility for classification.—The process of classification has to be carried out most carefully and rigidly. The primary responsibility for classification of bills, vouchers, etc., rests with the Administrative authorities. Thus, on the face of every bill or voucher received from the treasuries should have been entered the divisions (that is, Central, Provincial Reserved, Provincial Transferred, Non-voted, Voted) and the major, minor and detailed heads to which the charges it records belong; and similarly every item of receipt in the schedules and monthly cash accounts received from the treasuries should have recorded on them the major, and in most cases also the minor and detailed heads of classification. One of the most important duties of Account Officers is to check before compilation the classification thus entered, and where it is wanting to classify the items properly on the bills or vouchers or in the monthly accounts. The treasuries in Madras, the Forest Department everywhere, the Public Works Divisions with the exception of certain big project divisions, the Telegraph branch of the Indian Posts and Telegraph Department, and the construction divisions of the Indian Railways, submit their accounts in a classified form; and it is the duty of the Account Offices to check the correctness of the classification of every item booked in these accounts before final compilation.

PART III.

The Main Principles and the Main Processes of Audit.

CHAPTER 12.

The Audit of Receipts.

241. *Limitation of Receipt Audit.*—From the time when the work of audit and accounts in India was first centralised, the test audit of some receipts, as for example, Customs receipts, receipts of State Railways, revenue realised by officers of the Public Works Department, receipts of the Posts and Telegraphs Department, receipts in aid of Superannuation, etc., have been entrusted to the Audit Department, while in the case of other departmental receipts, such as Land Revenue, Excise, Stamps, Jail Receipts, etc., the duty of seeing that the dues of Government are regularly paid into the treasury has been entrusted to the Departmental Controlling Officers.

245. *Proposed Extension of Auditor General's Audit of Receipts.*—In his despatch No. 149 Fincl., dated 28th November 1913, the Secretary of State expressed the opinion that it was desirable to extend the scope of the Auditor General's audit over receipts generally, but no material progress was made in this direction till the time of the Reforms of 1919.

246. Under the Reforms a rule was included in the Auditor General's Rules that the Auditor General shall, if so required by the Governor General in Council, arrange for the audit of the accounts of the receipts of revenue of any Government Department. In this connection the Secretary of State remarked as follows:—

“As regards rule 12, relating to the audit of revenue and stores, I note that the Auditor General will only act if required by the Governor General in Council. As regards the audit of revenue, I would refer to paragraph 8 of the Marquis of Crewe's despatch No. 149, dated 28th November 1913, with which I am in entire agreement. I recognise that the extension of the Auditor General's activities in the direction of audit of revenue must, owing to practical considerations, be gradual, but I am of opinion that as opportunity offers his responsibilities in this regard should be developed.”

247. The question has on several occasions engaged the attention of the Central Committee on Public Accounts, which in 1927 referred to the fact that the Secretary of State had twice drawn attention to the matter. The Committee expressed the opinion that it has never been systematically investigated by the Government of India ; but from time to time the scope of audit of receipts entrusted to the Auditor General under the rule quoted has been increased, and a number of accounts of receipts has been added to the lists of those which were previously under his audit control. In practice, whenever large embezzlements in the accounts of a specific institution are disclosed, the Auditor General is asked to undertake the audit of the receipts of that institution.

248. Under the existing arrangements the Civil Audit offices perform the audit of receipts in a small number of cases. A list of the accounts of the receipts of revenue, the audit of which has been entrusted to the Audit Department under rule 12 of the Auditor General's Rules, is given in Appendix 14 to the Audit Code. The audit of railway earnings, however, forms an important part of the duty of Railway Audit offices, and this check will be examined in some detail in Chapter 32.

✓ 249. *Functions of Receipt Audit.*—The check of receipts divides itself into the two functions of seeing (a) that all sums due are received or checked against demand, and (b) that all sums received are brought to credit in the accounts.

✓ 250. *Check against Demands.*—A public "demand" arises in India in two ways. Either it is (i) a specific demand, fixed or fluctuating, for a contribution to the State Exchequer, such as land revenue and excise—all taxation is of this nature—or (ii) it is a demand which arises in consequence of some outgoing of Government property (stock) or Government cash or Government service, in which case it is a claim for a "quid pro quo." Of the latter nature are demands set up by the sale of Government lands, stamps, forest produce, etc. ; by Government cash advances and remittances ; and by Government services, such as State Railways, Telegraphs, etc.

✓ 251. The check against (i), the specific demand, is always exercised in one way : the demand, if fixed, is entered in a register and the receipts or satisfactions of it are checked and entered against it : if fluctuating (as in the case of excise and customs duties, etc.), a Government staff is employed to watch the operations on which the demand depends and to collect the dues. In India this check is in most cases left to the revenue-collecting authorities.

✓ 252. The check against (ii) varies according to the nature of the demand.

(a) Where the demand arises in consequence of some outgoing of Government property (stock); Audit can only operate if it receives returns of the property, such as the monthly returns of stamps and opium sent by the treasuries to the Audit office. The check then

consists in seeing that for every reduction of stock in the return there is an equivalent cash credit in the accounts.

(b) Where the demand arises in consequence of some outgoing of Government cash, as in the case of advances and remittances, Audit exercises a direct and complete check, entering the outgoing in a register and watching and recording the receipt against it.

(c) Where the demand is occasioned by some outgoing of Government service, as in the case of State Railways and Telegraphs, the dues are collected by the Government staff working the service and their collection is subjected by Audit to check, the extent of which is prescribed in each case.

253. There is a third class of receipts which occurs without reference to demands, or, as it were, casually. Of this nature are deposits (such as those in the Post Office Savings Bank) and payments to Government for money orders. These are repayable; Government acts in regard to them as a banker or remitter; they are not Government dues and Audit can exercise no function as to their receipt. It does, however, check each repayment against the original receipt.

254. To sum up, the foregoing analysis indicates that Audit plays an extremely limited (though, so far as it goes, important) part in ensuring that the Government receives the sums of money due to it, that is, in protecting Government against fraudulent or inadvertent omissions to realise its enormous cash dues. In the main, however, this task is left to the revenue-collecting authorities.

255. *Check of Credit in accounts.*—The second check in regard to receipts is to see that all sums received on behalf of Government are brought to credit in the accounts. The sums due to Government are either paid by the persons concerned direct into the treasury or paid to a Government servant who is required to receive the same and remit them to the treasury. In the latter case, it is left to the revenue authorities concerned to see that sums received by the members of their departments are paid into the treasury. The task of the Audit Department then resolves itself into seeing that all sums of money paid into the Government treasuries are credited by the treasury staff in their accounts. The first or main safeguard to this end, that is, against error or fraud on the part of the treasury staff, is the printed receipts which have to be given for all payments into a treasury. If audit could collect all these receipts it would possess an almost perfect check over the credits in the treasury accounts. But, apart from the fact that the Audit Department is debarred from taking such action, this course is not feasible; the receipts are required by the payers as proof of their payments and to protect them against a second demand. In general they remain in the back-ground as a moral safeguard and only operate actively when some inquiry arises, or the repayment of something in

the nature of a deposit is required. To establish a more immediate connection between payments and credits, Audit sends all the large civil revenue-paying Departments (such as Land Revenue, Stamps Excise, etc.) monthly returns of treasury credits. These they compare with their own records, and differences brought to notice are settled. The great non-civil departments (Public Works, Railways, Posts and Telegraphs, etc.), and the Forest Department send the Audit Office information as to their payments into the treasuries which it compares with the treasury credits; Courts of Law send to the Audit Office returns of fines paid into the treasury. In this way a very large proportion of the credits in the treasury accounts are verified without much delay, and errors or frauds on the part of the revenue treasury staff are *pro tanto* prevented and corrected. This is a most important and valuable function of Audit.

256. *Nature of audit functions in relation to Receipts.*—Where the audit of receipts is required to be conducted by the Audit Department it should not be directed so much to a mechanical check of items credited as—

- ✓ (i) to see that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue;
- ✓ (ii) to see that such regulations and procedure are being carried out; and
- ✓ (iii) to make a test examination as to the correctness of the sums brought to account.

257. It will, therefore, be seen that such audit of receipts is not confined to the limits of the check mentioned in paragraph 249. The Audit Department is also at liberty to inquire of departments, which are receivers of public money, what checks are imposed against the commission of irregularities at the various stages of collection and accounting and to suggest improvements in procedure.

CHAPTER 13.

The Audit of Expenditure.

258. Essential conditions governing expenditure.—Every payment of money on Government account involves three principal processes :—

- (a) The submission of a claim ;
- (b) The disbursement of the money claimed ; and
- (c) The incorporation of the transaction in the Accounts.

It is clear, however, that a disbursing officer must have some criterion whereby he can judge the equity of a claim so made, and can justify his action in making a payment in satisfaction of it. We have therefore to consider what conditions regulate public expenditure.

259. The incurring of expenditure from the revenues of India is governed by the following essential conditions :—

- (i) that there should exist sanctions, either special or general, accorded by competent authority, authorising expenditure ;
- (ii) that there should be provision of funds sanctioned by competent authority fixing the limits within which the expenditure can be incurred ;
- (iii) that the expenditure should be incurred in accordance with the financial rules and regulations framed by competent authority ;
- (iv) that the expenditure should be incurred with due regard to financial propriety.

260. Duty of Audit.—As has already been stated, the Auditor General is responsible for the efficiency of the audit of expenditure in India from the revenues of India. The Audit Department is, therefore, charged with the duty of auditing all classes of such expenditure to see that the administrative authorities comply with these essential conditions. Therefore the audit of expenditure follows the lines of these conditions.

261. Conditions (i), (ii) and (iii) are governed by Statute, as embodied in the Government of India Act, and in statutory rules made thereunder, and by executive orders issued by competent authority ; and condition (iv) is regulated by certain canons of financial propriety laid down by the Secretary of State in Council in rule 11 of the Auditor General's Rules.

262. In conducting the audit in respect of the first three conditions the auditor is performing quasi-judicial functions, in that he has to apply

the rules and orders as they stand, irrespective of the position of the person against whom they are enforced. He may not relax or waive the rules, except where he is specifically empowered to do so.

✓ 263. In conducting the audit in respect of propriety the audit officer has to scrutinise the expenditure from the point of view of an administrative authority. He is required to see that the general principles of legitimate finance are borne in mind both by disbursing officers and by sanctioning authorities, and it is his duty in audit not only to offer any necessary criticism of their acts, but also to assist them in protecting the interest of the tax-payers, in developing revenue, and in effecting economies in expenditure wherever possible. This class of audit, which is ordinarily known as Higher Audit, is, therefore, not a matter of mere application of rules and regulations. It requires an intelligent and detailed scrutiny directed to the avoidance of wasteful and extravagant expenditure.

264. It will thus be apparent that, however courteously and carefully an auditor may conduct his work, his task is delicate and his duty, if carried out conscientiously, is liable to misrepresentation and attack. At the same time the responsibility laid upon him is great, both to the Legislature as representing the tax-payers, and to the executive and other authorities responsible for the financial control of expenditure.

CHAPTER 14.

Audit of Sanctions.

265. *The first condition governing expenditure.*—As explained in the previous Chapter, the first of the important functions of Audit is to see that each item of expenditure is covered by the sanction of the authority competent to sanction it. The duty of audit in this regard is thus very simply stated. Its complexity lies in the knowledge and the correct application which are required of the principles involved and of the present constitutional position.

266. *Application of Audit Check.*—Audit check is not applied in India to the sanctions and orders of the Secretary of State, but only to sanctions accorded by the Governor General in Council or the local Governments, or by lower authorities. Audit is charged with the duty of determining whether any expenditure so sanctioned actually requires the sanction, either of a higher authority in India, or of the Secretary of State.

267. In smaller matters, such as contingent expenditure, sanction may be regarded as being accorded by the signature or countersignature of a bill; and in such cases it is the duty of the auditor to see that no item in the bill actually requires the sanction of a higher authority than the signing or countersigning officer. But the term "sanction audit" is more especially applied to the work of examining separately communicated orders authorising the incurring of specified expenditure. After the order of sanction has been audited and recorded, the audit of the expenditure against the recorded order becomes a matter of audit in respect of regularity. See paragraph 338.

268. *Independence of Audit in relation to Sanction Audit.*—The "independence of audit", to which a reference has been made in Chapter 4, is of especial importance in relation to this branch of audit work. The Auditor General in India is himself independent of the Government of India, but the Officers of the Service are not. As the latter are members of a Central Service, no question of "independence" arises in respect of their Audit of Sanctions accorded by local Governments or their officers, or by any authority subordinate to the Government of India; but it does arise when they are required to audit sanctions accorded by the Government of India itself because they are subordinate to the authority whose sanctions they audit.

269. The difficulty was met by provision made in the rules originally framed under Section 96D (1) of the Government of India Act of 1919 that the audit of sanctions to expenditure accorded by the Governor

General in Council should be under the immediate supervision of the Auditor General,* and that no officer employed immediately under the Auditor General on this duty should be subject to adverse disciplinary action by the Governor General in Council in respect of the discharge of such duties. All such sanctions were then audited by "Auditors of Government of India Sanctions." These posts, though still theoretically necessary, were later abolished, and the audit duty was retransferred to the offices auditing the expenditure against such sanctions, on the basis of a convention that, in the event of an audit objection being raised with which the Government of India did not concur, the matter should be taken up by the Auditor General himself.

270. An interesting point which illustrates the importance still attached to this theory of independence is the inclusion, in the Auditor General's Rules, of a provision for the audit, by an Officer unconnected with the Audit Department in India, of all sanctions to expenditure accorded by the Auditor General himself under the powers delegated to him.

271. *Authority to Sanction Expenditure.*—It will now be seen that it is incumbent upon all audit officers to make themselves fully conversant with the powers of sanction of the several authorities, which are laid down in the Statute, and in the Statutory Rules and other orders issued by the Secretary of State in Council, or in orders issued by the authorities in India, and are embodied in the various audit and departmental codes and other publications issued by the Government of India, or under their authority, or by the local Governments.

272. *History prior to Reforms of 1919.*—The first regulation which defined the authority for sanctioning expenditure from the revenues of India was Section 41 of the Government of India Act, 1858 (21 and 22 Vic. Cap. 106), which subsequently appeared as Section 21 of the Government of India Act, 1915, and ran as under :—

"The expenditure of the revenues of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council; and no grant or appropriation of any part of those revenues, or of any other property coming into the possession of the Secretary of State in Council by virtue of this Act, shall be made without the concurrence of a majority of votes at a meeting of the Council of India."

273. Thus the entire responsibility for the control of expenditure from the revenues of India was vested by the statute in the Secretary of State in Council. In order, however, to provide for the speedy disposal of public business, the Secretary of State from time to time prescribed limits within which expenditure might be incurred by the Government of India without previous reference to him on each

occasion. These instructions, before 1889, were embodied in executive orders, rules and regulations issued by the Secretary of State. But it was not until 1888 that any steps were taken to provide that expenditure wrongly incurred without the sanction of the Secretary of State should be challenged in Audit.

274. The position was re-examined in that year; and in 1889 for the first time an Audit Resolution was promulgated, which was re-issued with certain modifications in 1893, indicating precisely the limits of the expenditure which the Governor General in Council could incur without previous reference to the Secretary of State, and the Audit Officers were directed to require evidence of the latter's authority wherever this was necessary according to the terms of that Resolution.

275. Thereafter there were numerous revisions of this Resolution, and the last edition prior to the introduction of the Reforms of 1919 (known as the Main Audit Resolution) was issued on the 4th March 1913. Between that date and the time of the Reforms the matter was brought more and more prominently to notice, and the Secretary of State latterly extended and insisted upon his powers of interference.

276. *Delegations to local Governments and Subordinate Authorities.*—As regards the growth of the powers granted to local Governments, it is sufficient to note that an important resolution was issued in 1897 defining those powers. Since then, as a result largely of the work of the Decentralization Commission of 1909, their powers were increased considerably and a new Resolution defining the powers of sanction of local Governments in respect of Provincial and Imperial expenditure was issued in July 1916. This was known as the Provincial Audit Resolution.

277. *History of delegation.*—The Statutory Rule quoted in paragraph 272 required that all expenditure in India should be sanctioned by the Secretary of State in Council. It was not until many years later that it was realised that this Statutory Rule gave the Secretary of State in Council no power to divest himself of this responsibility, and that he could not make any general assignment of his control, either to the Government of India or to any province or body subordinate to it, without an evasion of the spirit and an infraction of the letter of the Act of Parliament. In 1916 the following proviso was added to Section 21 of the Government of India Act, 1915, in order to get over this difficulty :—

“ Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State in Council with the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of a majority of such votes.”

This amendment made the position clear and legalised the delegation of powers by the Secretary of State to authorities in India.

278. Even under the then existing orders it was found that the position as regards delegation was very complicated. The Secretary of State held that the powers exercised by the Government of India or the local Government were merely delegated by him, and that the Government of India or the local Governments could not delegate to subordinate authorities powers entrusted to themselves without the sanction of the Secretary of State. The whole question was, therefore, examined in detail; and with the approval of the Secretary of State a set of financial rules was issued in 1917 clearly defining not the actual powers to be exercised in each case but the maximum limits up to which powers may be delegated to subordinate authorities without reference to the Secretary of State.

279. The Resolutions defining the powers delegated by the Secretary of State to the Government of India and to the local Governments, and the rules defining the extent to which the delegated powers could be re-delegated to the subordinate authorities, were revised up to the 1st June 1918 and published in a volume called the "Book of Financial Powers."

280. *Control by the Government of India over local Governments before the Reforms of 1919.*—The control of the Secretary of State over the powers of expenditure of the Government of India and of the local Governments has so far been examined. It is now necessary to describe briefly the constitution before the Reforms of 1919 as regards the powers of control of the Government of India over local Governments. Under Section 45 of the Government of India Act, 1915, every local Government was bound to obey the orders of the Governor General in Council and "to keep him constantly and diligently informed of its proceedings in all matters which in its opinion should be reported to him or as to which he requires information". Since the Government of India were generally responsible for provincial solvency, the financial control that was exercised was detailed as well as rigid, and financial settlements were based definitely on the requirements of the various provinces. So far as provincial expenditure was concerned, the local Governments exercised limited powers delegated to them by the Secretary of State.

281. *Relevant features of the Reforms Scheme in regard to Provincial matters.*—One of the fundamental principles, on which the new constitution under the Reforms of 1919 was based, is that the Provinces should be given the "largest measure of independence of the Government of India which is compatible with the due discharge by the latter of its own responsibilities". This was effected partly by complete separation of the sources of revenue and partly by relaxation of the orders under which proposals for provincial expenditure had to be submitted to the

Secretary of State for his approval. The following is a brief description of the measures adopted to achieve this object :—

- (i) In Governors' Provinces the functions of the local Governments have been distinguished from those of the Governor General in Council by a division of the subjects which are placed under their respective administrative control. Those subjects which remain under the administration of the Governor General in Council are called "Central" subjects, while those which have been placed under the control of the local Governments are called "Provincial" subjects. The local Governments frame their own budgets which are passed by the Legislative Councils, which contain a large elected majority.
 - (ii) The provincial subjects have been further divided into (a) "Transferred" and (b) "Reserved". The former includes those subjects which it was considered could be entrusted to the popular control and have been placed under the charge of the Governor acting with Ministers, who are appointed from the elected members of the Legislative Council. The latter class includes subjects which have not been so transferred and are placed under the charge of the Governor in Council.
- NOTE.—A complete list of subjects classified as Central, Provincial reserved and Provincial transferred, respectively, is given in Schedules I and II of the Devolution Rules.
- (iii) Local Governments are given powers to borrow in the open market for their own purposes, subject to certain restrictions, while the local Legislative Councils are empowered to pass laws imposing fresh taxes of certain specified kinds.
 - (iv) Under the rules framed under Section 96B (2) of the Government of India Act, the power to make rules regulating the method of recruitment, conditions of service, pay, allowances and pensions of provincial and subordinate services and of officers holding special posts has been delegated to the local Governments of Governors' Provinces.
 - (v) In regard to expenditure on provincial transferred subjects, the local Government, that is to say the Governor acting with Ministers, has been given full powers except in respect of All-India Services and of Officers holding the King's Commission. The local Government has also been authorised to delegate any of its powers to an authority subordinate to it, after previous consultation with the Finance Department, to such extent as may be required for the convenient and efficient despatch of public business.

- (vi) In regard to expenditure on provincial reserved subjects, the powers of sanction of the local Governments, that is to say, the Governors in Council, have been very largely increased either by rules made under the Act, which have received the approval of both Houses of Parliament, or by executive orders of the Secretary of State, and they have now full powers, except in respect of the following:—
- (a) Pay, allowances, etc., of All-India Services, and Officers holding the King's Commission ;
 - (b) The expenditure of the Provincial Governors ;
 - (c) Revisions of establishment involving an annual expenditure exceeding a certain limit ;
 - (d) Capital expenditure upon irrigation and navigation works, including docks and harbours, and upon projects for drainage, embankment and water storage and the utilisation of water power, where the original estimate exceeds Rs. 50 lakhs.

The local Governments may also, with the previous consent of the Finance Department, delegate such power upon such conditions as they may think fit to any officer subordinate to them.

282. The introduction of the Reforms of 1919 has, therefore, had the effect of handing over the control over expenditure in respect of provincial transferred subjects from the Secretary of State in Council to the Legislative Councils, except in the case of All-India Services and of Officers holding the King's Commission. In regard to provincial reserved subjects the Secretary of State still retains his statutory control ; and the powers of expenditure on these subjects enjoyed by the local Governments are derived from delegations made by him under the provisions of Section 21 of the Act.

283. *Control by the Government of India under the Reforms of 1919.*—Practically no control is exercised by the Government of India over the provincial expenditure. In cases where the sanction of the Secretary of State is required, it is laid down that every application for his sanction should be addressed to the Governor General in Council, who shall (except in the circumstances explained in the next paragraph, in which he can himself accord sanction) forward the same for the orders of the Secretary of State in Council with his recommendations and with such further explanations of the proposal as he may have seen fit to require from the local Government.

284. The Governor General in Council has power at his discretion to sanction on behalf of the Secretary of State in Council the following items

of expenditure in cases in which they require a reference to the Secretary of State :—

- (a) the grant in an individual case of any increase of pay ; or
- (b) the creation or extension of a temporary post.

If he himself does not exercise his discretion and sanction the proposal, he may, and, if he dissents from the proposal, shall forward the application with his recommendations, and with such further explanations of the proposal as he may have seen fit to require from the local Government, for the orders of the Secretary of State in Council.

285. It will be seen that in respect of provincial expenditure the Government of India now merely offer their advice or their comments in forwarding schemes for the sanction of the Secretary of State in Council. At the same time, in dealing with Provincial matters of sufficiently grave importance to justify direct action, the Governor General in Council can at any time exercise, in respect of reserved subjects (see Devolution Rule 13), the powers of superintendence, direction and control conferred on him by Sections 33 and 45 of the Government of India Act. In regard to transferred subjects these powers are limited by the terms of Devolution Rule 49.

286. *Powers of the Government of India in regard to Central subjects.*—With regard to “Central” subjects, that is to say, subjects under the control of the Central Government, the powers of the Government of India have also been considerably enhanced, but in the matter of control by the Secretary of State the position is the same as in the case of provincial reserved subjects. The classes of expenditure from Central revenues upon subjects other than provincial subjects which the Governor General in Council may not sanction without the previous consent of the Secretary of State in Council are clearly defined in the new “Book of Financial Powers” and, in respect of Railway matters, in a separate publication entitled the “Schedule of Powers of the Government of India, Railway Department (Railway Board)”. It has also been provided that the Governor General in Council can delegate the powers possessed by him either to any officer subordinate to him, or to a local Government acting as his agent in relation to Central subjects, upon such condition as he may think fit. The orders of delegation passed under this rule may contain a provision for re-delegation by the authority to which the powers are delegated.

287. *Expenditure involving higher sanction at a later date.*—Another important limitation put upon the powers of the Governor in Council and the Governor General in Council in respect of Provincial reserved subjects and Central subjects respectively is that the sanction of the Secretary of State in Council is necessary to any expenditure which is likely to involve at a later date expenditure beyond the power of sanction of those authorities.

288. This rule was previously included in the old Main Audit Resolution; but at the time of the Reforms it was transferred to the Auditor General's Rules as one of the canons of financial propriety, which made the Auditor General responsible for seeing that no authority should incur any expenditure which might involve at a later date expenditure beyond its own power of sanction. The effect of the inclusion of this rule in the Auditor General's Rules was that, in case of a breach of this canon, audit could report the matter to the Governor General in Council or to the local Government as the case might be; but if the matter was not redressed by such report, all that audit could do was to require its report by the Finance Department of the Government concerned to the Public Accounts Committee (Rule 14 (i) of the Auditor General's Rules). This course was not considered to be proper in cases in which the Secretary of State is the authority directly concerned, and when audit holds that an authority in India has accorded a sanction which should have been accorded by the Secretary of State.

289. The defect in this rule was therefore brought to the notice of the Secretary of State by the Auditor General in paragraph 55 of his letter No. 234 Rep/4-28, dated 10th July 1928, forwarding the Appropriation Accounts for the year 1926-27 and the Reports of the Audit Officers thereon; and in 1929 the rule was retransferred from the Auditor General's Rules to the various Books of Financial Powers.

290. (a) The following is an example of a case falling under this rule. A local Government wished to create certain temporary appointments as an experimental measure with the object of constituting small areas within a district with a gazetted officer in charge of each. It was considered almost certain that the result of the experiment would be the introduction of the system permanently in that province. It was held then that it would probably involve at a later date expenditure beyond the powers of the Government of India and that the sanction of the Secretary of State should therefore be obtained in the first instance.

(b) Another typical example is a case in a Governor's province in which an additional post of a Chief Engineer was sanctioned for 7½ years and a member of the permanent establishment was appointed to that post. In consideration of the arduous nature of the work and other reasons, a special pay of Rs. 300 was granted by the local Government for two years to the holder of the post. Under the rules in force the continuance of the special pay beyond two years required the sanction of the Secretary of State in Council. The local Government sanctioned the special pay for two years only on the ground that the incumbent of the post was due to retire after that period. The grounds alleged for its grant would, however, be equally applicable to his successor; and consequently there was every likelihood of the special pay being continued beyond that period. It was therefore held in audit that the

sanction of the Secretary of State in Council should be obtained initially to the grant of the special pay in question.

291. *Grouping for the purpose of sanction.*—A further important point in the old Audit Resolution was the statement that, in determining the authority competent to sanction a work, a group of works which forms one project shall be considered as one work, and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project is within the powers of sanction of the lower authority. Though it has not been considered necessary to include this principle in the several Books of Financial Powers, it is still in force and has been issued as an Audit Instruction by the Auditor General.

292. It is very difficult to devise any general formula which will in each case decide the question whether two or more schemes or projects must be considered so connected as to form essentially one scheme or project. It was ruled in 1916, with the approval of the Secretary of State, that the following two tests should be applied :—

- (i) Can the expenditure on any local area or in respect of one set of conditions be confined thereto or must it lead to further outlay ?
- (ii) Is there a central idea underlying a scheme for one establishment which it is intended to apply to other establishments ?

For the practical application of these tests, the following instructions were also issued with the approval of the Secretary of State for the guidance of the Audit Officers :—

- (i) In dealing with specific cases, the initial presumption should be in favour of a local Government's contention that the particular scheme does not involve further expenditure which would require the sanction of higher authority, and the Audit Officer should not traverse this contention without what he deems to be cogent evidence to the contrary.
- (ii) If an Audit Officer holds that, although a scheme does not require the Secretary of State's sanction by reason of its own magnitude, but ought to be submitted to him because it is likely to lead to a larger scheme, he is not entitled to require that the first scheme be held up until the details of the larger scheme have been worked out. All he is entitled to say is that the first scheme requires the Secretary of State's previous sanction by reason of the fact that the expenditure which it involves cannot really be kept within the limit of the financial powers of the local Government, but will lead later on to larger, perhaps much larger, outlay.

- (iii) Where a local Government has made provisional arrangements pending the introduction of a larger and more satisfactory scheme, these arrangements must be treated by themselves. They are not a part of the larger scheme, but merely a substitute therefor.

293. In 1920, the Government of India made an amendment with the approval of the Secretary of State in the Book of Financial Powers to the effect that, in order to determine whether a particular item is or is not part of a scheme, the test is whether the Government is ready to go on with the scheme even though sanction is refused to that item.

294. In this connection the study of some of the previous decisions on the subject will also be helpful in arriving at reasonable conclusions ; and some of them are, therefore, quoted below :—

(i) In connection with the Dacca Capital Project, the Secretary of State, in April 1909, expressed himself to the following effect :—

“ The chief question which I am called upon to decide is whether the various buildings required for the establishment at Dacca of the Head Quarters of the Province of Eastern Bengal and Assam are to be regarded as forming one Project. The decision must clearly depend to a considerable extent on the views expressed on previous occasions by the Secretary of State for India in Council when similar questions have come before him. So far as I have been able to ascertain, there have been two occasions on which the Secretary of State has been called upon to consider whether separate and distinct buildings required for the purpose of an administrative improvement are to be regarded as forming a single project. The action taken in the two cases was as follows :—

- (a) In 1876, the Government of India proposed to spend £150,000 on improving the sanitation and water supply of Simla, erecting quarters for officers and clerks, and other measures, and this expenditure was sanctioned by the Secretary of State. In the following year the Government of India submitted a statement showing that in addition to the items already sanctioned they contemplated the construction of a new house for the Viceroy, that they had spent £7,000 in acquiring a site, and that pending the completion of the designs and estimates they had ordered improvements costing £10,000 in the house which His Excellency then occupied. In his reply of the 7th June 1877, No. 29-Public Works, the Marquess of Salisbury decided that these expenses and any others which it might be proposed to incur at Simla for the purpose of making it more suitable as a Summer Residence for the Viceroy and his officers must be looked upon as belonging to the same work as that for which expenditure has already been sanctioned, and that it would, therefore, be necessary before the proposed

additional works were actually commenced that estimates for their construction should be sanctioned in the regular manner and approved by Her Majesty's Government. The Earl of Kimberley's concurrence in the views of the Marquess of Salisbury was clearly and emphatically expressed in his Despatch No. 3-Public Works, dated 12th February 1885.

- (b) In 1907, as you are aware, I decided that various items of expenditure incurred for the acquisition of certain sites and construction of buildings to provide additional accommodation for the Viceregal Establishments at Calcutta must be regarded for purposes of sanction as one scheme, although the several buildings were dealt with by you as separate schemes.

Having regard to the precedents I am unable to decide otherwise than in the sense suggested by the Examiner the question now under consideration, but I may observe that even if no precedents were available I should be of opinion on general grounds of reasonableness that the works included in the building programme required for the establishment of a new Provincial Head Quarters must be regarded for the purpose of Financial sanction as forming one project."

(ii) The Secretary of State in his Railway Despatch No. 48 of 1913 accepted the proposal of the Government of India which may be summarised thus: "The Railway Board proposes that interdependence should be the determining factor in deciding whether two or more works must be regarded as forming a group of works for purposes of sanction. We agree that this is the principle which should ordinarily be adopted We would add that in emphasising the importance of the principle of interdependence as the test to be ordinarily applied we do not desire rigidly to fetter the discretion of audit authorities as there may be circumstances in which grouping may be held necessary with reference to financial considerations even though the test of interdependence is not clearly satisfied."

Thus, at least in the case of Railway works, the interdependence of works has been regarded as the determining factor. It has therefore to be considered in each case whether or not a particular work is complete in itself for the purpose it is intended to serve, independently of the construction of another work of the same or a different class, whether in juxtaposition to it or separated from it by a distance.

(iii) In 1914, in connection with the transfer of the headquarters of the Sibsagar District from Sibsagar to Jorhat and the consequent expenditure on several new works in the new district headquarters, the cost of which if grouped together would have exceeded the powers of

sanction of the Government of India, the Auditor General expressed his opinion as under :—

“ In this particular case, I do not think that mere coincidence of time and space necessarily brings all works within one project. There must be a link of purpose as well as of time and space.”

(iv) The Secretary of State decided that the following were to be considered as schemes for purpose of sanction :—

- (1) Various improvements in the accommodation for the Viceroy's entourage at Calcutta carried out at the same time.
- (2) Revisions of establishments for the offices of—
 - (i) The Chief Engineer and Secretary.
 - (ii) The Examiner, Public Works Accounts.
 - (iii) The Circle, Divisional and Sub-Divisional Offices necessitated by the creation of the new province of Eastern Bengal and Assam.

(v) The Auditor General treated the following as “ schemes ” for the purpose of sanction and these decisions were accepted without comment by the Secretary of State :—

- (i) The changes accepted by the local Government on the report of a Committee to enquire into the methods of work, the rates of pay and the adequacy of the subordinate establishments in all Government offices in the United Provinces.
- (ii) The increase in cost, over that shown in the original proposition statement for the estimated cost of effecting all the changes effected in the United Provinces as a result of the report of the Police Commission, when all those changes had been carried out and the actual cost could be stated.

(vi) The Royal Decentralization Commission in paragraph 132 of their report stated : “ The question to be asked in such a case is whether expenditure in one or two districts could stop there or whether it must inevitably lead to outlay elsewhere. In the former case the expenditure immediately contemplated should be considered by itself, in the latter, the financial result of its general application must be taken into account.”

295. So far, expenditure incurred at or about the same time has been considered. But account has also to be taken of expenditure which will be incurred at a comparatively distant date. Such expenditure need not be included in the cost of a scheme, unless the object of the expenditure is a direct and inevitable consequence of the expenditure on those parts of the scheme which are to be undertaken at or about the same time, which expenditure has to be included in the cost of the scheme for the purpose of sanction.

296. Inasmuch as the power of sanction depends upon the amount of an estimate, there must be sometimes a temptation to keep an estimate within the powers of sanction of a subordinate authority by omitting from it a few of the less important features. It is important, then, to have some working rule as to the subsidiary works which must be included in the project estimate of a large scheme. This rule may be expressed thus:—"A project estimate for a scheme should contain estimates of all those subsidiary works which are essential in order that the scheme may fulfil the purpose for which it was undertaken." It is also desirable that it should contain estimates of all those works which are essential in order that the scheme may meet the probable immediate demand for the service to render which it is undertaken. But Audit cannot insist on the acceptance of the latter proposition in the framing of estimates while it can in respect of the former.

297. Though it is difficult to formulate these rules in words it is easy to show their application to concrete instances. If a Railway is being constructed it must have at least one line of rails, and some stations, engines and rolling stock, and the cost of these must be included in the project estimate. To meet the probable immediate demand it might be preferable to have a broad gauge line and stations every five miles, and if the money were available it would be more economical to build the line on that scale at once. But if it be decided to build the Railway on the metre gauge with stations every ten miles, and if thereby the estimated cost be brought within the powers of sanction of a lower sanctioning authority, Audit can raise no objection.

298. It is, of course, understood that, if any one item of a scheme requires the sanction of higher authority, effect should not be given to that item before sanction to it is obtained. In determining whether any other portion of the scheme may be put in hand prior to the receipt of such sanction, due regard must be paid to the rule quoted in paragraph 287.

299. *Sanction to expenditure on public Services.*—In dealing with the audit of sanctions it is necessary to indicate how the powers of sanction to expenditure on public Services are affected by the Reforms of 1919.

300. The conditions of service, the pay, allowances and pensions, etc., and the discipline and conduct of the members of the public Services, and of the holders of certain high and special posts, are governed by the provisions of the Government of India Act, or by rules made under the relevant sections of the Act, or by laws enacted in accordance therewith.

301. Under the provisions of Sections 29 and 30 of the Act, appointments to public Services are sometimes made by contract effected between an individual person and the Secretary of State in Council or an authority in India on behalf, and in the name, of the Secretary of State in Council.

302. Section 96B (2) of the Act authorises the Secretary of State in Council to make rules regulating the classification of the civil Services in India, the method of their recruitment, their conditions of service, pay and allowances, and discipline and conduct. Such rules may, to such extent and in respect of such matters as may be prescribed, delegate the power of making rules to the Governor General in Council or to local Governments, or authorise the legislatures in India to make laws regulating the public Services.

303. *Classification Rules*.—Under this section the Secretary of State in Council has framed certain rules, called the “ Civil Services (Classification, Control and Appeal) Rules ”, regarding the classification of the public civil Services in India, the recruitment of members for those Services, their pay, allowances and pension, and their discipline and conduct. These rules are applicable to every person in the whole-time civil employ of a Government in India except—

- (a) persons for whose appointment and conditions of employment special provision is made by or under any law for the time being in force ;
- (b) persons in respect of whose conditions of service, pay and allowances and pension, or any of them, special provision is made in the contract, to which reference has been made in paragraph 301.

Provided that, in respect of any matter not covered by the provisions special to him, his service or his post, these rules shall apply to any person coming within the scope of these exceptions to whom, but for these exceptions, the rules would otherwise apply.

NOTE.—Clause (a) above covers the case of certain Railway servants and others, in respect of whom separate Classification Rules are in contemplation.

304. The classification made under these rules divides the public civil Services in India into six classes—

- (I) the All-India Services ;
- (II) the Central Services, Class I ;
- (III) the Central Services, Class II ;
- (IV) the Provincial Services ;
- (V) the Specialist Services ;
- (VI) the Subordinate Services.

305. (a) The power to make rules regarding the method of recruitment, conditions of service, pay and allowances, etc., of the All-India Services, and of Military Officers and Officers of the Royal Indian Marine holding the King's Commission, who are appointed to a post in any of the public Services in India, is reserved to the Secretary of State in Council.

(b) In regard to (II), the power to make rules regulating the conditions of service, etc., of the Central Services, Class I, has (with specified exceptions) been delegated to the Governor General in Council, subject to the control of the Secretary of State in Council in certain respects.

(c) In regard to (III), full power to make rules regulating the conditions of service, pay and allowances, etc., of the Central Services, Class II, has been delegated to the Governor General in Council.

(d) As to (IV), the power to make rules on these subjects in respect of the Provincial Services has been delegated to the local Governments of Governors' Provinces, subject to certain minor reservations in respect of first appointment to, and increase or reduction of the number of posts in, these Services, requiring the intervention of the Secretary of State in Council or of the Governor General in Council.

(e) As regards (V), full powers have been delegated to the Governor General in Council and the local Government of a Governor's Province to determine the posts to be held by members of the Specialist Services under their respective administrative control, and to appoint persons to hold them, and to make rules prescribing the conditions of service, the pay and allowances, and pensions, if any, of the incumbents of such posts ; subject only to the condition that no such post, if its creation would adversely affect any member of an All-India Service, or certain Central Services, Class I, shall be created without the previous sanction of the Secretary of State in Council.

(f) As regards (VI), full power to make rules providing for the first appointment, method of recruitment, number and character of posts and conditions of service, pay, allowances and pensions, of the Subordinate Services under the administrative control of a Government has been delegated to such Government.

306. These Rules also provide that any rule made by an authority in India in exercise of the powers thus delegated to it may, for reasons to be recorded in writing by the Governor General in Council or the local Government as the case may be, be relaxed in individual cases in which that authority is satisfied that a strict application of the rule would cause hardship to the individual concerned.

307. *Delegation of power.*—As pointed out in paragraphs 277 to 279 above, the question of delegation was very complicated before the introduction of the Reforms. At present, however, the Governor General in Council and the local Governments have been given specific powers and they are at liberty, after previous consultation with the Finance Department of their Government, to delegate, with or without conditions, to any officer subordinate to them, or (in the case of the Governor General in Council) to a local Government acting in relation to Central subjects as the agent of the Governor General in Council, any of the powers of sanctioning expenditure which they themselves

possess. As already stated, it has further been ruled by the Secretary of State that any orders of delegation which the Governor-General in Council may issue may also contain a provision to the effect that the authority to which the powers are delegated may in turn re-delegate any of its powers to any lower authority.

303. *Period of Validity of Sanctions.*—Any sanction accorded by a competent authority remains valid for the specified period for which it is accorded, subject in the case of voted expenditure to the voting of supply by the legislature in each year.

309. *Audit of Sanctions as distinguished from Audit of expenditure against Sanctions.*—It will be observed that this Chapter has dealt almost exclusively with an examination of the powers of sanction of various authorities in India ; and it will be seen how complex a matter is the audit of sanctions, and how important it is for Audit Officers to study the subject with care and to apply it with intelligence. When once orders of sanction, separately communicated, have been examined, admitted in audit, and recorded, the audit of expenditure against the audited sanctions becomes a simple matter, and will be found to be one of the items of check prescribed in Chapter 16.

CHAPTER 15.

Audit against Provision of Funds.

310. *The second condition governing expenditure.*—The second of the four main conditions governing expenditure, mentioned in Chapter 13, which Audit has to examine, is that there is provision of funds sanctioned by competent authority fixing the limits within which the expenditure which is being audited may be incurred.

311. *Authority for sanction of funds.*—For the purposes of determining the authority which can provide funds, the Government of India Act of 1919 divides expenditure into two classes, namely, (1) Voted and (2) Non-voted. The former class includes the items for which the provision of funds is subject to the vote of the legislature; while funds for the latter class are sanctioned by Government without reference to the legislature. The latter class includes only the following items:—

CENTRAL EXPENDITURE.

- (i) Interest and sinking fund charges on loans.
- (ii) Expenditure of which the amount is prescribed by or under any law.
- (iii) Salaries and pensions payable to or to the dependants of—
 - (a) persons appointed by or with the approval of His Majesty or by the Secretary of State in Council;
 - (b) Chief Commissioners and Judicial Commissioners;
 - (c) persons appointed, before the first day of April 1924, by the Governor General in Council or by a local Government, to services or posts classified by rules under the Act as superior services or posts;
- (iv) Sums payable to any person who is or has been in the civil service of the Crown in India under any order of the Secretary of State in Council, of the Governor General in Council, or of a Governor, made upon an appeal made to him in pursuance of rules made under the Act.
- (v) Expenditure classified by the order of the Governor General in Council as—
 - (a) Ecclesiastical;
 - (b) Political;
 - (c) Defence.

 PROVINCIAL EXPENDITURE.

(i) Contributions payable by the local Government to the Governor General in Council.

(ii) Interest and sinking fund charges on loans.

(iii) Expenditure of which the amount is prescribed by or under any law.

(iv) Salaries and pensions payable to or to the dependants of—

(a) persons appointed by or with the approval of His Majesty or by the Secretary of State in Council ;

(b) Judges of the High Court of the province ;

(c) the Advocate General ;

(d) persons appointed, before the first day of April, 1924, by the Governor General in Council or by a local Government, to services or posts classified by the rules under the Act as superior services or posts ;

(v) As in clause (iv) under Central Expenditure.

NOTE.—The expression “salaries and pensions,” as used in clause (iii) of the Central Expenditure and in clause (iv) of the Provincial Expenditure, includes remuneration, allowances, gratuities, any contributions (whether by way of interest or otherwise) out of the revenues of India to any provident fund or family pension fund, and any other payments or emoluments payable to or on account of a person in respect of his office.

312. Budget.—A statement of the estimated annual receipts and expenditure of the Governor General in Council, in respect of central subjects, arising both in India and England, is prepared by the Finance Department and presented to the Central Legislature. This statement is generally known as “the Budget.” A similar Budget is prepared by the Finance Department of each local Government in respect of provincial receipts and expenditure, and is presented to the Provincial Legislative Council.

313. Demands for Grants.—The proposals of the Governor General in Council or of the local Government, in respect of money required for voted expenditure included in the Budget, are submitted to the vote of the legislature in the form of “Demands for Grants.” It is for the Finance Member to settle the form in which the demands should be presented, but ordinarily a separate demand is proposed for each Department of Government. Each demand contains, first, a statement of the total amount required, then, a statement of the detailed estimate under each demand divided into items. The demand is however subject to the restriction that, if any expenditure requires the sanction of the Secretary of State in Council, it should not be included in it unless the required sanction has already been obtained. An exception to this rule is allowed in cases of extreme urgency, where the time available is so short that sanction cannot be obtained even

by telegram; but in such cases a report is required to be made to the Secretary of State as soon as possible after the presentation of the demands.

314. The legislature can vote only on proposals so placed before it by Government. It cannot grant more than the demand nor can it make a grant for any expenditure not included in the demand.

315. When the demands for grants are presented, the Central legislature may act in any of the following ways when voting upon each demand :—

- (a) It may assent to the demand;
- (b) It may refuse its assent to the demand; or
- (c) It may vote a grant of an amount less than that demanded.

A provincial legislature may act similarly; and may also, when reducing the amount of a demand as at (c) above, specify the particular item or items of expenditure proposed in the demand which it intends should be omitted or reduced as the case may be.

316. *Powers of the Governor General and of Governors.*—The control of the legislature is not, however, final, as the Act gives the Governor General and the Governors certain powers, which are detailed below, to incur expenditure even though it has not received the assent of the legislature.

CENTRAL EXPENDITURE.

‘The demands as voted by the Legislative Assembly shall be submitted to the Governor General in Council who shall, if he declares that he is satisfied that any demand which has been refused by the Legislative Assembly is essential to the discharge of his responsibilities, act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to, by the Legislative Assembly.

Notwithstanding anything in this section the Governor General shall have power, in cases of emergency, to authorise such expenditure as may, in his opinion, be necessary for the safety or tranquillity of British India or any part thereof.”

PROVINCIAL EXPENDITURE.

“The local Government shall have power, in relation to any such demand, to act as if it had been assented to, notwithstanding the withholding of such assent or the reduction of the amount therein referred to, if the demand relates to a reserved subject and the Governor certifies that the expenditure provided for by the demand is essential to the discharge of his responsibility for the subject; and the Governor shall

have power in cases of emergency to authorise such expenditure as may be in his opinion necessary for the safety or tranquillity of the province, or for the carrying on of any department."

317. It will be noticed that there is an essential difference between the powers of a Governor and those of the Governor General. In cases of emergency both can authorise expenditure ; but, in other cases, while the Governor can sanction expenditure which he certifies to be necessary for the discharge of his responsibilities only in the case of certain subjects classified as "Reserved", the Governor General in Council can adopt this procedure in the case of all expenditure under his control. This difference is due to the fact that in the case of central subjects no portions are transferred to popular control and placed entirely under the control of the legislature.

318. *Grants and Appropriations.*—The Demands for grants, which as already stated, relate to the votable part of the Budget, when voted and passed by the legislature become "Grants" available for expenditure within the scope of the Demands as explained in paragraphs 326 and 327. The remaining portion of the Budget is passed by the Government of India or the local Government, as the case may be. The assignments made by Government from the non-votable portion of the Budget to meet specific expenditure on non-voted items are called "Appropriations."

319. *Sub-heads of Grant and of Appropriation.*—For purposes of financial control, the grant or appropriation is divided into a number of units, called "sub-heads", each of which may be divided or subdivided as may be necessary into primary or secondary units of appropriation.

320. The distribution of allotments under sub-heads is usually effected as under :—

- (i) The whole or a part of the allotment under a sub-head may be placed at the disposal of a controlling authority or a disbursing officer ; or the sub-head may be broken up into a number of primary or secondary units (to cover a number of items of expenditure or a number of detailed heads of account) and the allotment for any of these, wholly or in part, may be placed at his disposal.
- (ii) A controlling officer, at whose disposal an allotment for an unit or a portion of it has been placed, may, out of it, allot funds for expenditure on a specific item, or on a group of items.
- (iii) The sum total of all allotments made by any controlling authority from a unit should not exceed the amount of the unit, or a portion thereof, placed at his disposal.

321. Supplementary Grants.—The amount of a grant once sanctioned by the legislature cannot be reduced even by that authority, although for the purpose of control the Executive Government has power to require its officers to spend a smaller sum than that sanctioned by the legislature. The grant can, however, be increased with the sanction of the legislature in the following cases :—

- (i) When the amount of a grant voted in the budget is found to be insufficient for the purpose of the current year ; or
- (ii) When a need arises during the current year for expenditure, for which the vote of the legislature is necessary, upon some new service not contemplated in the budget for that year.

In such cases, an estimate for the supplementary or additional grant is submitted to the vote of the legislature, and that body deals with it in the same way as if it were a Demand for a Grant. An estimate may be presented in respect of any demand to which the legislature has previously refused its assent or the amount of which it has specifically reduced.

322. Re-appropriations.—Within the amount of the grant as voted by the legislature, and subject to the limitations in regard to new services, the Government possesses full powers of transferring the provision from one unit to another by a formal order of re-appropriation, provided that such action shall not have the effect of restoring an item omitted or reduced as explained in paragraph 315. For example, the Finance Department of a local Government has been given power to sanction any re-appropriation within a grant from one major, minor or subordinate head to another. The Member or Minister in charge of a department has power to sanction re-appropriations within a grant between heads subordinate to a minor head, provided the transfer does not involve undertaking a recurring liability.

323. Re-appropriation from one grant to another is not permissible, as such re-appropriation would have the effect of reducing and increasing respectively the two grants. The powers of re-appropriation within the grants are regulated by rules made by the Governor General in Council and the respective local Governments.

324. The powers quoted in the last two paragraphs refer only to expenditure from grants, that is to say expenditure in respect of those services for which the vote of the legislature is required. So far as non-voted services are concerned, any expenditure in excess of the appropriation, that is to say the estimate for that head shown in the budget for the year, can be incurred only after consultation with the Finance Department. Where no vote of the legislature is involved, there is no restriction on re-appropriation corresponding with the restriction forbidding re-appropriation from one grant to another. The Finance

Department may frame rules regulating the procedure of re-appropriation within or between non-voted appropriations.

This rule applies only to expenditure on provincial subjects. As regards central subjects the Governor General in Council has full powers in respect of non-voted services, and they are exercised by the several departments of the Government of India in accordance with the rules framed by the Governor General in Council.

325. Re-appropriations from a non-voted head to a voted head are not permissible, as a voted grant cannot be increased except by the legislature. Re-appropriations from a voted head to a non-voted head are also not permissible as such re-appropriations have the effect of reducing a grant voted by the legislature. The Finance Department of a Government is entitled to sanction supplementary funds for a non-voted service against earmarked savings under specified voted grants; but such additions to non-voted heads by formal re-appropriations from voted grants are not permissible.

326. *Duties of the Audit Department.*—The Audit Department is responsible for auditing the grants, appropriations, allotments from them under sub-heads, and re-appropriations, and for auditing the expenditure against grants, appropriations, and allotments therefrom, to the extent indicated below :—

(a) AUDIT OF GRANTS AND APPROPRIATIONS.

To see :—

- (i) that the grant for votable expenditure is covered either by the vote of the legislature or by orders issued by the Governor General or the Governor in exercise of the powers conferred upon them by the provisions of the Act as detailed in paragraph 316.
- (ii) that the appropriation for non-votable expenditure has been sanctioned by Government.

(b) AUDIT OF ALLOTMENTS AND OF RE-APPROPRIATIONS.

To see :—

- (i) that an authority making allotments under a grant or appropriation does not allot amounts in excess of those available under the grant or appropriation; and
- (ii) that an amount re-appropriated is available under the unit from which the re-appropriation is made, and is covered by the sanction of competent authority, and that for every addition to a unit by re-appropriation there is a corresponding reduction in another, so that the net result may be *nil*.

(c) AUDIT OF EXPENDITURE AGAINST GRANTS, APPROPRIATIONS AND ALLOTMENTS THEREFROM.

A controlling authority at whose disposal a grant or appropriation is placed is responsible for watching the progress of expenditure and for keeping the aggregate charges within the amount of the grant or appropriation. Similar duties are imposed upon a subordinate controlling authority at whose disposal the allotment fixed for a portion of the grant or appropriation is placed in turn. When several officers are authorised to incur charges relating to a sub-head against a lump sum allotment placed for the purpose at the disposal of a single higher authority, it devolves upon this authority to watch the progress of expenditure in all the offices and to keep the aggregate charges within the allotment fixed under that sub-head. It is the duty of the Audit Officer to see that the controlling authorities are carrying out their duties properly. For this purpose -

- (i) The Audit Officer is required to watch firstly, that the total expenditure against a grant or appropriation does not exceed the amount of the grant (including supplementary grants) or of the appropriation (as finally modified by the Finance Department); and secondly, that the total expenditure on each sub-head does not exceed the allotment therefor, as modified by orders of re-appropriation passed by competent authority from time to time.
- (ii) He must further see on behalf of the executive Government (Central or Provincial) that if, under the financial rules of that Government, a particular object of expenditure requires a specific allotment, all expenditure on it is audited against such allotment.
- (iii) Similarly, if a lump sum allotment is made for a group of items of expenditure of an office, the Audit Officer should see that the total expenditure thereon is audited against the lump sum placed at the disposal of the disbursing officer for the purpose.
- (iv) Lastly, the Audit Officer has to see that the expenditure brought to account against a particular grant or appropriation is of such a character as to warrant its record against that grant and against no other.

An Audit Officer is not ordinarily required to audit expenditure against any primary or secondary unit of appropriation. If, however, he is requested by the local Government to audit the charges against the allotment under such units he will comply with the request.

327. Another important check of expenditure against grants is to see that the money voted by the legislature has been spent on purposes which are set out in the detailed Demands for Grants. The legislature grants a lump sum in response to a demand, which is set out in consider-

able detail, and it is implied that the amount granted should be spent only on purposes which are set out in the detailed demands. Thus, as already stated in paragraph 321 (ii), it has been laid down in a statutory rule, issued under the Government of India Act, that the Government should obtain an additional grant before money can be spent on "some new service not contemplated in the budget."

328. Audit has, therefore, to see that the expenditure brought to account against a grant is covered by the purpose of the grant as detailed in the demand therefor, and that for expenditure on a new service a supplementary grant has been obtained from the legislature.

This form of check is not applicable to appropriations for non-voted expenditure, as the Government has full power to vary the programme of such expenditure during the course of the year and to modify the budget accordingly.

329. *Meaning of the term New Service.*—No rule has been framed by the competent authority for the interpretation of the term "new service" mentioned in clause (ii) of paragraph 321, which forms part of a statutory rule. To determine whether expenditure has or has not been incurred on a new service within the meaning of the statutory rule, Audit Officers should observe the following as a working rule.

330. A new service may be a new form of service or a new instrument of service. The difference between these two is best explained by concrete illustrations. If in a province there is no Borstal Institute and one is inaugurated, that undoubtedly is a new form of service. On the other hand if it is decided to build a new jail, that is not a new form of service because jails already exist in every province. It is, however, a new instrument of service because it is a new jail additional to those already in existence. When expenditure is to be incurred on a new form of service, then in all such cases, theoretically, it should be held that the expenditure is to be incurred on a new service within the meaning of the statutory rule. A new instrument of service may, however, be a new University, if there is already a University in the province, or it may be an additional chowkidar. The former may cost over a crore of rupees with very considerable recurring expenditure, while the chowkidar may cost perhaps Rs. 60 a year recurring expenditure. It is not practical politics to insist that an additional grant shall be obtained to meet expenditure of Rs. 60 per annum on a chowkidar when there are already thousands in existence. It is, however, obviously essential to obtain an additional grant if the new instrument of service is to be of the importance of an University and is to entail very considerable expenditure. Exactly where, between these extremes, the line of demarcation is to be drawn is a matter which cannot be determined by any rigid rule. The application of the term "new service" to concrete cases can best be governed by the evolution, in the course of time, of a body of Case Law.

CHAPTER 16.

Audit against, and Scrutiny of, Rules and Regulations.

AUDIT AGAINST RULES AND REGULATIONS.

331. *The third condition governing expenditure.*—The third of the main functions of audit, as described in Chapter 13, is to see that the expenditure is incurred in accordance with the financial rules and regulations framed by competent authority.

332. *Necessity for Rules and Regulations.*—In view of the fact that Government expenditure is incurred by numerous authorities entrusted with the administration of different activities of Government, it has become necessary for the purposes of control to prescribe various financial rules and regulations for their guidance. These rules and regulations fall under two categories :—

- (i) those dealing with the procedure of Government and other transactions to which a Government official is a party ;
and
- (ii) those governing the pay, allowances, etc., of the various services and posts under Government.

333. *Authority to frame Rules.*—So far as provincial transactions are concerned, the rules of the first category are issued under rules 16 and 37(e) of the Devolution Rules.

334. With the previous sanction of the Secretary of State in Council, the Governor General in Council has issued, under rule 16 of the Devolution Rules, certain Treasury Orders prescribing the main principles to be followed in the payment of monies into, and in the withdrawal, transfer and disbursement of monies from, the public account of the Government of India.

335. Under rule 37 (e) of the Devolution Rules, which makes the Finance Department of a local Government responsible for seeing that proper financial rules are framed for the guidance of other departments, the local Governments have framed financial rules prescribing the detailed procedure to be followed by Government officials in dealing with Government and other transactions.

336. The Treasury Orders and rule 37 (e) of the Devolution Rules have no statutory authority in their application to central transactions, as they derive their authority from Section 45A of the Government of India Act, which deals with provincial matters. The Government of

India have therefore issued, under their executive authority, similar financial rules governing the mode of central transactions. The nature and scope of these rules have been more fully discussed in Chapter 25.

337. The position as regards the rules falling under the second category is explained in paragraphs 300 to 306.

338. *Objects of Audit.*—In applying the check against these rules and regulations the Audit Officer has to see that all payments which he is required to audit are effected according to the procedure laid down by the competent authority regulating the mode of transactions, and also that they conform with the conditions governing the pay and allowances, etc., of various services and posts where such payments are involved. The main objects of this check are, therefore, to ensure :—

- (a) that the expenditure is in accordance with a sanction properly accorded (see paragraphs 267 and 309) and is incurred by an officer competent to incur it ;
- (b) that the claims are made in accordance with the rules and in the proper form ;
- (c) that all prescribed preliminaries to expenditure are observed, such as proper estimates framed and approved by competent authority for works expenditure, or a health certificate obtained before disbursement of pay to a Government servant, etc. ;
- (d) that an adequate classification of the nature of the claim is given on the bill and that such classification is correct ;
- (e) that the rules regulating the method of payment have been duly observed by the disbursing officer ;
- (f) that the payment has, as a fact, been made and has been made to the person entitled to it under the rules, or any special or general order ;
- (g) that it has been so acknowledged and recorded that no second claim against Government can be made on the same account ;
- (h) that the rates paid for work done or supplies made are in accordance with any scale or schedule prescribed by competent authority ;
- (i) that the payments have been correctly brought to account in the original accounts.

SCRUTINY OF RULES AND REGULATIONS.

339. *Necessity for Scrutiny.*—As the audit of expenditure is to be conducted against these rules and regulations, it is essential that all

financial rules and orders affecting expenditure and other transactions subjected to audit, which are issued by any authority in India, whether under the provisions of any statutory rule or otherwise, should themselves be subjected to audit scrutiny before the audit of the transactions which they govern can be conducted against them.

340. *Application of Audit Scrutiny.*—It is, therefore, necessary to see—

- (i) that these rules and orders are consistent with the essential requirements of audit and accounts ;
- (ii) that they do not conflict with the orders of any higher authority ; and
- (iii) that, in cases in which they have not been separately approved by a competent authority, the issuing authority possesses the necessary rule-making power.

341. In applying the first of these checks the principle to be observed is that the discretion vested in authorities empowered to make rules is not to be fettered unnecessarily merely because difficulty may arise in the application of necessary audit checks or the maintenance of proper accounts. If the audit and accounts procedure can be amended without loss of efficiency or extra expense, the rule should be accepted and the procedure amended accordingly.

¶ **342.** In applying the second of these checks the guiding principles enunciated below should be observed :—

- (i) If the authority framing the rule is granted full powers in respect of a certain class of expenditure, an order issued under those powers can be challenged by audit only under the canons of financial propriety.
- (ii) If it is granted powers which may be exercised provided due regard is paid to certain criteria which are expressed in a general form, orders issued under those powers can be challenged by audit if the facts of the case are such as to make the audit authority confident that one or more of the criteria have been disregarded, and that the disregard is so serious as to make the order perverse.
- (iii) If it is granted powers which are expressed in precise terms, the Audit Officer is bound to ascertain that the order defining its powers is exactly obeyed in every instance.

343. The third of the checks mentioned in paragraph 340 requires no explanation.

CHAPTER 17.

Audit in respect of Propriety.

344. *The fourth condition governing expenditure.*—Of the four main headings, summarised in Chapter 13, under which audit is conducted, the first three have been described in Chapters 14, 15 and 16. The fourth duty of audit is to see that the expenditure is incurred with due regard to financial propriety.

345. *The Canons of Financial Propriety.*—In rule 11 of the Auditor General's Rules it has been laid down that the Auditor General, without prejudice to his other audit functions, is responsible that audit is conducted with reference to the following canons of financial propriety, namely :—

- (I) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.
- (II) Money borrowed on the security of allocated revenues should be expended on those objects only for which, as provided by rules made under the Act, money may be so borrowed. If the money is utilised on works which are not productive, arrangements should be made for amortisation of the debt.
- (III) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.
- (IV) Government revenues should not be utilised for the benefit of a particular person or section of the community unless—
 - (i) the amount of expenditure involved is insignificant, or
 - (ii) a claim for the amount could be enforced in a court of law, or
 - (iii) the expenditure is in pursuance of a recognised policy or custom.
- (V) The amount of allowances, such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that the allowances are not on the whole sources of profit to the recipients.

346. *Origin of the Canons.*—Before discussing the intentions of these canons in detail it is desirable to explain their origin. Formerly it was rare for the Audit Department to question the wisdom of any charge

on public funds or whether it accorded with the policy of the Government, or whether it was on the most economical scale compatible with securing the desired result. As a rule, all that the auditor asked was proof (a) that the money was spent on its declared purpose, and (b) that there was proper formal authorisation under the Codes for its expenditure.

347. In 1907 the Secretary of State for India drew the attention of the Government of India to the rules by which expenditure from the revenues of India was then regulated, and pointed out the necessity of revising the existing Audit Resolution in such a way as to limit the powers of sanction of the Government of India, by providing explicitly that certain classes of expenditure, which were not then mentioned in it, should require the previous sanction of the Secretary of State in Council.

348. In accordance with the wishes of the Secretary of State, the Government of India submitted a draft of a new Resolution, and made the following comments on the subject of the propriety of expenditure :—

“ In paragraph 3 of the draft we make it clear that all measures which raise an important question of administration or financial policy, or involve considerable expenditure of an unusual nature, must be submitted for the orders of the Secretary of State. This general limitation on our financial powers has been embodied in the preliminary portion of the Resolution, dealing with the powers which govern the discretion of the administrative, rather than in that part which describes the duty of the audit officer. This arrangement follows what is virtually the existing practice.” The Secretary of State did not accept this view and held that expenditure of an unusual nature should come within the purview of audit.

349. A rule was accordingly embodied in the Audit Resolution of December 18th, 1908, to the effect that the sanction of the Secretary of State was required to any expenditure exceeding Rs. 500* in any one case which was of an unusual nature or devoted to objects outside the ordinary work of administration, or to any expenditure likely to involve at a later date expenditure beyond the powers of the Government of India ; and the Audit Officers were enjoined to verify these conditions. This rule was worded vaguely, and its interpretation gave great trouble, as it is not easy to decide what is “ usual ” or belongs to the “ ordinary work of administration.” So, although before the Reforms efforts were made to scrutinise expenditure in respect of propriety, not much advance was made in this direction, owing to the want of a rule clearly laying down the principles by which audit should be guided.

350. The *raison d'être* of audit has, under the Reforms, been described as the necessity for a powerful and independent central agency which will bring financial irregularity and misdemeanour prominently before (1) the executive and (2) the legislature. This view was expressed thus in paragraph 77 of the First Despatch on the Reforms :—

* NOTE.—The words “ exceeding Rs. 500 in any one case ” were added in 1914.

“ In place of the formal examination of authorities and of rules, the work should be conducted with greater regard to the broad principles of legitimate public finance. The audit will not only see whether there is quoted authority for expenditure; but will also investigate the necessity for it. It will ask whether individual items were in furtherance of the scheme for which the budget provided; whether the same results could have been obtained otherwise with greater economy; whether the rate and scale of expenditure were justified in the circumstances; in fact, they will ask every question that might be expected from an intelligent tax-payer bent on getting the best value for his money. The Audit Officers will also devote more of their time to looking into the manner in which various executive officers are undertaking their more important financial responsibilities.”

The existing rule in the old Audit Resolution mentioned above was found by experience to be unsatisfactory and it was decided to replace it by the set of principles reproduced in paragraph 345 above, which have received the label “ canons of financial propriety.”

351. The reasons why they do not appear in the new Audit Resolutions but in the Auditor General's Rules are constitutional. The responsibility in respect of transferred subjects now devolves on the local Governments, and the Secretary of State did not consider it desirable to retain his control over such subjects to ensure compliance with the canons. He has therefore left that duty in the hands of the new authorities, namely, the legislature acting through the Public Accounts Committee; and inasmuch as he came to that decision with regard to Provincial transferred subjects, he accepted the same principle with regard to Provincial reserved and Central subjects also. Consequently the rule does not take the form of requiring the sanction of the Secretary of State when any of these canons is infringed, and is not therefore embodied in the Audit Resolutions.

352. *Duty of Audit in respect of the Canons.*—When an apparent breach of one of these canons is detected it should be reported by the Audit Officer to the administrative authority concerned, and, if the matter be serious, at the same time to the local Government. If the correspondence confirms the Audit Officer in the opinion that there has been a breach he will report it to the local Government. The Finance Department can require the Audit Department to withdraw the objection on the promise that the matter will be placed before the Public Accounts Committee. The Public Accounts Committee as representing the legislature makes its recommendations on the case and it then rests with the Government to take them into consideration. The Audit Officer should, however, see that the action taken by Government is adequate; and, if he is of the opinion that it is not, it is open to him to comment thereon in his next Report.

§ 13. *An examination of the Canons.*—The canons may now be considered in detail.

(1) The *first* canon requires the Audit Officer to see that there is no extravagance. This canon comes practically from an existing rule in the Civil Account Code (Article 91 slightly modified). The application of this canon will be explained later.

(2) The *second* canon deals with borrowing. This canon is quite new as the local Governments had no powers of borrowing in the past. It imposes a new duty on Audit Officers to see that borrowed money is not spent on objects the expenditure on which is intended to be met from current revenues. The rule refers to revenues allocated to local Governments under the Devolution Rules and states that money borrowed on the security of those revenues can only be spent on the objects specified in the local Government (Borrowing) Rules, and that, if expenditure met from such Loans is on unproductive works, a Sinking Fund or other form of amortization should be formed for the eventual liquidation of the loan. It further requires that if, after meeting the objects for which money had been borrowed, there remains a surplus balance, it should be utilised on objects for which money can be borrowed under the rules and not put back into the general balances of the province. The Secretary of State in his Financial Despatch No. 8, dated the 10th July 1922, suggested that the rules regarding the creation of a Sinking Fund for the amortization of loans utilised on unproductive works should apply also to the Central Government, and the Government of India have taken action accordingly.

(3) The *third* canon was evolved some years ago when a proposal came up to the Government of India to grant the members of the Executive Council slightly improved rates of travelling allowance when they were travelling in their special carriages. They proposed to sanction the increased rates in pursuance of their general powers of dealing with travelling allowances; but, as a doubt was expressed as to the propriety of according sanction in such a case, a reference was made to the Auditor General for a ruling whether it would require the sanction of the Secretary of State. The Auditor General held that, whatever might be the position with regard to travelling allowance generally, it was certainly incorrect in principle for an authority to pass an order which would be directly or indirectly to its own advantage. This is now accepted as a fundamental principle. It is to be noted, however, that if an order is of perfectly general application it does not constitute a breach of this canon if the particular authority that passes that order is also benefited thereby.

(4) The *fourth* canon emanated directly from an audit rule relating to unusual expenditure in the Main Audit Resolution. The point arose in connection with the polo grounds which were constructed at Delhi

on the occasion of the King-Emperor's Durbar. No objection was raised to the initial expenditure, but when the Durbar was over it was proposed that Government should maintain those grounds as polo grounds. The Auditor General expressed the opinion that, as the polo grounds would benefit merely the few people who would play polo thereon, the maintenance of the grounds should fall upon them and not upon Government.

Provisos are however, necessary to make the rule practicable, and exceptions have therefore been made for (i) insignificant sums, (ii) claims which could be enforced in a Court of Law, and (iii) expenditure which is in pursuance of a recognised policy or custom.

The last proviso alone needs detailed explanation. Under British rule, with regard to expenditure on behalf of particular sections and communities, numerous customs have been recognised and certain lines of policy have been adopted. For instance, grants to hospitals or educational institutions or for the construction of public roads have always been recognised as permissible. On the other hand, a grant for the construction of a Hindu temple or a Muhammadan mosque is not covered by any recognised policy or custom.

NOTE.—After the fourth canon, another canon used to follow prescribing that no authority should sanction any expenditure which is likely to involve at a later date expenditure beyond its own powers of sanction. For constitutional reasons this rule has now been retransferred to the Audit Resolutions, (from which it was originally taken) and has therefore been discussed in Chapter 14.

(5) The *fifth* canon is based on Article 995 of the Civil Service Regulations, regarding travelling allowance, and applies on the same principle to other compensatory allowances. The local Governments of Governors' provinces have now full authority to sanction compensatory allowances subject to the restriction contained in this canon. The rules framed by Government will thus require intelligent scrutiny on the part of Audit to ensure that their operation will not involve a breach of this canon.

354. The application of the first canon is perhaps the most important phase of audit work. Government expects disbursing and controlling officers to see that there is no extravagance in the expenditure of the public money. The controlling officers are thus responsible that the expenditure is necessary and the rates are fair. It is the duty of the Audit Officer to see that the officers of Government properly discharge their functions in this respect. He should devise means to bring to notice all important cases which indicate want of attention to economical considerations. All important sanctions must be scrutinised intelligently to see if the expenditure is necessary, and in doubtful cases the papers leading to the sanction should be examined and the Finance Department should also be consulted. As proposals for new expenditure are also scrutinised by the Finance Department, it may sometimes happen that that Department will bring to the notice of the Audit

Officer cases in which expenditure has been sanctioned which in the opinion of the Finance Department is unnecessary or extravagant. Breaches of this canon should be reported only after full consideration of all the circumstances of the case.

355. The controlling officer, with his intimate knowledge of the details of the work in question, is in a far better position than the Audit Officer to determine fair rates. At the same time it is necessary that the Audit Officer should not be wholly absolved from responsibility in this important branch of audit. There can be no doubt as to the wisdom of the distinction of the duties of the two classes of officers in this respect. The scrutiny of rates demands the exercise of great intelligence and care, and should not be entrusted to an ordinary auditor to be applied as a mechanical check. Individual abnormalities should, of course, be watched, but the institution from time to time of a comparative examination of the rates paid by various officers in the same or neighbouring localities may indicate cases in which, the rates being abnormal, further enquiry may be desirable. Cases involving considerable sums should generally be selected. The assistance of the Finance Department may be invoked in obtaining reliable schedules of rates and other necessary information.

356. Cases of extravagance should, in the first instance, be brought to the notice of the controlling authority of the officer whose expenditure has been called in question. That officer will investigate the matter and will forward to the Audit Officer his opinion whether the expenditure is extravagant or not, with his reasons. The Audit Officer will then be in a position to determine whether there has been a breach of that canon or not. In all important cases, the Finance Department should be consulted before making a formal report to Government.

357. The question of checking extravagance is of principal importance in connection with those Audit offices which deal with the accounts of Works, Stores and Workshops, and the results of audit would be more valuable if greater attention were paid to this branch of the work and less to the enormous volume of work arising from the application in audit of the rules contained in the various Codes concerning amounts drawn by officers of Government in the shape of pay and allowances.

CHAPTER 18.

Audit of Stores and Stock.

358. *Limitation of responsibility for audit of stores and stock.*—As has already been stated in paragraph 23, the audit of stores and stock is mainly left to the departmental authorities in whose custody they are kept. The Auditor General, as in the case of receipts, arranges for this audit only in cases in which he is so required by the Governor General in Council. A list of accounts of stores and stock for the audit of which the Auditor General has been made responsible is given in Appendix 14 to the Audit Code.

359. Whenever material assets have to be retained for any time in the custody of Government servants, Stores Accounts have to be maintained. Stores Accounts may be either unpriced or priced, the general principle determining the distinction being that the former applies to stores the cost of which is charged to a final head, whereas the latter applies when the cost of the stores is subject to subsequent adjustment. The essential points of such accounts are simple. The difficulties arise from the very large number of articles kept in a large storeyard, and from the need of simplifying the procedure without lessening the efficiency of check.

360. *Essential points of stores audit.*—An account of stores (including stock) is a record of all articles brought into, and sent out of, store ; and the function of audit is to see :—

- (i) that every article purchased or otherwise obtained for store is entered as a receipt in the store account ;
- (ii) that there is a proper sanction for the purchase ;
- (iii) that the rates paid agree with those shown in any contract or agreement that may have been made for the supply of the stores ;
- (iv) that the store-keeper holds a proper quittance for every article shown in the store account as issued ;
- (v) that the articles are periodically counted and otherwise examined to verify the accuracy of the quantity balances in the books ;
- (vi) that the balance in hand does not exceed the maximum limit prescribed by competent authority and is not in excess of requirements for a reasonable period ;
- (vii) that steps are taken to dispose of unserviceable and surplus stores ;

(viii) that, where a priced account is maintained,

- (a) the materials are priced with reasonable accuracy, and the rates are reviewed from time to time and revised where necessary ; and
- (b) the balance of stock materials works up to the value balances as shown in the account at reasonable rates which should be within the market rates.

361. The sellers of articles purchased for store may be relied upon to obtain payment from Government, and such a payment must appear as expenditure in some Government account. In the same way, if an article brought into store has been obtained from some other Government department and that department has obtained its quittance from the store-keeper, the transactions must appear in the departmental account and also in the cash accounts of the Store Department. Thus, for every article brought into store there must be a debit in a Government account, and the check described in item (i) is exercised by tracing for every such debit an entry of the receipt of an article in the numerical store account.

362. Item (ii) involves the application of the Rules prescribed from time to time to regulate the supply of articles required to be purchased for the public service.

363. Ordinarily for the supply of stores contracts are made between the department concerned or the Indian Stores Department and a suitable individual or firm, with an agreement as to the price of the articles to be supplied. Item (iii) requires that the price paid for the articles purchased shall be in accordance with the rates so fixed.

364. The check prescribed in item (iv) is two-fold ; it is a comparison of the receipts of the persons to whom the stores have been issued with the entries of issues ; it is also a check to ensure that the persons to whom the stores have been issued are authorised to obtain those stores.

365. *Physical verification of stores.*—As regards the check prescribed at item (v), an auditor is not ordinarily required to assume responsibility for the physical verification of stores, but accepts a certificate from a responsible authority that the stores have in fact been verified. Audit has, however, the right to investigate balances of stores in the event of its finding in the stores account discrepancies which may appear to require further elucidation.

366. The auditor has also the right to see that the system of stores verification adopted by the executive is adequate and proper. Thus he may enquire whether the staff responsible for the verification of stores is other than the staff responsible for the physical custody of the stores or for the accounting for the same, and whether the verification takes place in the presence of the officer immediately responsible for the custody of the stores.

367. Stores represent a locking up of capital.—The purchase of stores for large construction works and on the Government Railways in India involves the borrowing of large sums of money, on which interest is paid. Thus stores, in many cases, represent a locking up of capital, which is always unjustifiable unless essential. The value of the check prescribed at item (vi), which is of general application, is therefore directed towards economy in this direction.

368. Unserviceable stores, and stock in excess of requirements.—The accounting and maintenance of unserviceable stores which cannot be utilised by the Department in whose custody they are kept involve waste of labour and space. Similarly stores kept in excess of the probable requirements of the Department in the near future may result in loss to Government through deterioration. Further, such a practice involves the locking up of money which could be utilised in other directions. The check required by item (vii) should be directed towards the avoidance of such losses, and suggestions should be made for the disposal of such articles in the best way possible.

369. Pricing of articles.—A priced account of stores should show the value of articles both at the rates at which they were purchased and at which they are to be issued. The latter should be fixed on a consideration not only of the actual cost, but also additional charges, such as cost of carriage, losses from depreciation or wastage, expenditure on establishment employed on the maintenance of initial accounts and custody of stores, etc., and they should at the same time be within the market rates. Item (viii) requires Audit to verify the correctness of the pricing of articles according to this principle, the object being to safeguard Government against any loss in their issue.

370. The general principle in a big Department is that in its general books an account is maintained of the value of stores purchased or otherwise acquired in which the transactions involved in the acquisition of each item of stores are recorded in detail, and that the value of stock materials as shown in the stock register is worked out separately in order to secure an agreement between the value balances as shown in the general books and as worked out separately in the stock register. Item (ix) requires an auditor to verify the agreement of these balances.

CHAPTER 19.

The Spirit of Audit.

371. *The Spirit of Audit.*—The spirit which should animate Audit was explained in paragraph 77 of the First Despatch on Reforms, an extract from which is given in paragraph 350. See also paragraph 263.

372. Although Audit Officers are bound to ascertain that the prescribed rules and orders are obeyed, it is not to be understood that the mere application of these rules and orders in their minutest detail serves the purpose of audit. Such a view does not envisage the fundamental object of an Audit Department, which is to save the tax-payers' money by seeing that expenditure is not irregularly and wastefully incurred.

373. For such a purpose it is necessary, of course, that rules of procedure should be laid down; but, if these rules are to be regarded as ends in themselves, and not merely as means to an end, the inevitable tendency will be for Audit Officers to insist rigidly on relatively petty matters and thus to frustrate the real object of audit. For it is clear that, if much time and trouble is taken up, and friction probably engendered, over expenditure of a very trifling character in regard to which there has been only a technical, as opposed to a substantial, irregularity, the State and therefore the tax-payers are losers. That is, it is better often to pass some not fully regularized expenditure of perhaps a few annas than to embark on lengthy controversy in respect thereof. Undue insistence on petty or technical details should whenever possible be avoided and more time should be devoted to the investigation of really important cases in which the auditor's intervention is desirable.

374. The prescribed checks should, therefore, be observed in the spirit and not in the letter as opposed to the spirit. As a rule, trifling matters which are of no consequence to the finances of the State should not be given much attention. To save time and trouble over petty sums, powers have been delegated to Audit Officers by the Government of India and all Provincial Governments to waive petty objections (see Article 156 of the Audit Code) and these powers should be exercised freely with discretion.

375. *Procedure for Audit scrutiny.*—In the scrutiny of accounts and vouchers the following procedure should be observed. The actual person performing the original audit, who will be usually a clerk, must apply the rules strictly. It cannot be expected that the clerks on comparatively low pay who perform the detailed audit will have the judgment or breadth of view necessary to exercise the discretionary powers indicated above. But once the detailed audit has been strictly carried out and every infraction of rule brought to light, it will then

be for the competent Audit Officer to exercise the discretion vested in him by Government, as laid down in Article 156 of the Audit Code, and to determine the cases in which the objections which might be raised under the strict letter of the law can be waived.

376. Pursuance of objections.—But, if the objection is of such a nature that it cannot be waived under the rule quoted above, it is then the duty of the Audit Officer to press it quietly but firmly. The more important the objection the more necessary it is to couch it in language which shall be courteous and impersonal. In carrying out this audit, the Audit Officer should remember that exceptional cases may arise in which it is desirable to relax formalities which he would follow strictly in ordinary cases. Thus in one case on retirement an officer went to a far country and sent bills for the balance of pay due to him. These bills were stamped with stamps of that country and the officer did not endorse on the bills the fact that he wished them to be made payable to a certain bank although he had left a letter in which he had expressed the wish that the amount of his bills should be paid over to that bank. In view of the special circumstances of the case it was held that endorsement on the bills themselves might have been dispensed with, and that the value of the requisite Indian stamps might have been deducted from the bill and the stamps purchased therewith and affixed. Audit Officers must remember, however, that circumstances must be really exceptional before rules are relaxed, and even then the relaxation must be of formalities rather than of essentials.

377. Audit to assist Government.—In paragraph 8 it has been pointed out that Audit is an instrument of financial control. It is therefore the duty of the Audit Officer to assist Government in financial matters. He is entrusted with responsible but unpleasant functions, and he must remember that he does not assist Government if he raises in the minds of other Government servants the feeling that he is far more willing to apply strict audit rules than to assist in other ways. Whenever, therefore, the Government invites his assistance he should give it with the utmost willingness and to the best of his ability. Whenever he has to inspect an office he should not only point out mistakes but also indicate how they may be rectified and in future avoided. He must educate as well as investigate.

CHAPTER 20.

Interpretation of Rules.

378. *How rules are framed.*—Considerable experience is necessary before an officer can become expert in interpreting the rules which he has to apply in Audit. These are found mainly in a number of Codes which have been framed by the crystallisation of departmental case-law over a long period of years. With each new edition, out-of-date orders are supposed to be removed and important orders of permanent interest, which have been passed since the last edition, introduced, ephemeral orders being neglected.

379. It will also be noticed that Indian Codes rarely contain any reference to the orders on which they are based. This has been done deliberately on the ground that decisions in audit matters should be based upon the actual words used in the Codes.

380. *Correlation between the spirit and the letter.*—At the same time Audit Officers are, as stated in paragraph 374, enjoined to follow the spirit rather than the letter of a rule when these two appear to conflict. Thus it is important for them to try to understand the real intention of the rules which they have to apply. The framing of rules to express an intention clearly is a difficult matter; and if Audit Officers find that when, as applied to a particular case, the wording of the rule in a Code does not seem to bear out the intention of the rule, it is desirable that they should take steps to bring the case to notice so that the wording of the rule may be brought more into accordance with the intention. This is all the more necessary because many Audit Officers have to apply the same rule and some of these may not have the same intimate knowledge as others of the intention of the authority, so that it is important that the letter of the rule should convey its spirit as clearly and as accurately as possible.

381. *Correlation between two rules of the same nature.*—Again, it sometimes happens that two rules seem to contradict each other when applied to a particular case, and there is no indication which rule should be applied. In that event, if one rule is fundamental and the other is of less importance, then the fundamental rule should prevail. Here again, however, for the reasons indicated above it may be desirable to bring the apparent conflict to notice.

382. In the application of rules to concrete cases an Audit Officer may find:—

- (1) That the application of the rule both in letter and in spirit is clear. In such cases it is for him to give his decision. If there are special reasons which in any case render the decision inequitable it is for the administrative authorities and not for the Audit Officer to move in the matter.

- (2) That, even though he is confident as to the correct interpretation of the rules, he may think that the wording might be improved. In that event he should give his decision and should suggest a revision of the Code to remove the apparent discrepancy between the spirit and the letter of a rule, or between two conflicting rules.
- (3) That there is a real difficulty in interpretation and that he cannot decide how to apply the rules to that case. In that event he should refer the matter to higher audit authority for a decision.

383. Procedure of interpretation.—A young officer may enquire how he is to ascertain the intention of any rule otherwise than by a careful interpretation of the words. Such intention can be ascertained authoritatively only by reference to the discussions leading up to the framing of the rule, that is, to the files of the Government. Such files, of course, are not ordinarily accessible to Audit Officers. There is, however, in every Audit office an atmosphere of experience and also records of cases in which the underlying intention of the rule has been discussed. Valuable knowledge can be obtained from such experience and records and should be stored carefully in the minds of Audit Officers; but it is necessary to warn them against an uneasy desire to look beyond the authorised Codes when deciding every individual case. An Audit Officer should not look to find, outside regulations, a ruling which shall form an exact precedent for every case with which he has to deal; and, whatever guidance he may in fact obtain elsewhere, the decisions at which he ultimately arrives should be such as he is prepared to justify on the regulations as they stand without appealing to external authority.

384. If in any case it becomes necessary for an Audit Officer to trace the genesis of a particular rule contained in a Code, he should search the previous editions to ascertain when the rule was first introduced.

385. Another point to remember in interpreting is that it is often difficult to ascertain the intention of the sanctioning authority from the terms of the order in which that sanction is conveyed unless the Audit Officer has also before him the letter asking for the sanction. It will then be easy to see what information was before the sanctioning authority when he conveyed the sanction, and that knowledge is often of the utmost use in determining the exact meaning of the sanction conveyed.

386. Another difficulty arises in the interpretation of orders from the use of "etc." in such orders. The authority to whom power is conveyed by such an order may be anxious to interpret that order in the widest possible sense. Such an interpretation, however, is not permissible. "Etc." in such a case means similar cases of a like nature. It cannot be used to cover other instances of a different nature.

CHAPTER 21.

The Results of Audit. The Executive and Appropriation Reports.

387. *The Value of Audit.*—As explained in Chapter 10, the statutory audit on behalf of the Auditor General begins in almost all cases after the events have occurred. In some provinces, certain classes of payments are made after the claims have been audited and passed by the Audit Department; but these payments, taken together, comprise a negligible percentage of the whole expenditure of Government. Generally speaking, therefore, the whole proceedings of the Audit Department are conducted *ex post facto*, and consequently Audit cannot prevent an overpayment through negligence or non-observance of the financial rules and regulations, or the commission of any other irregularity or impropriety by the administrative authorities during the course of events. The effective value of Audit lies in the report on its results being sent to proper authorities, so that the appropriate action may be taken by them to rectify the irregularity or impropriety where possible, or to prevent a recurrence of it.

388. *Detailed reports on Audit.*—Under rule 14 of the Auditor General's Rules, the Auditor General has power to enforce his audit objections subject to certain conditions. The detailed results of audit are reported at the earliest opportunity by the Audit Officers to the disbursing and controlling authorities, on whom the responsibility then falls for the settlement of the objections raised in audit and for the recovery of any amount disbursed in excess of that to which the claimant is entitled. Audit Officers are, however, required to keep a constant and careful watch over these objections and to keep controlling authorities fully acquainted not only with individual cases of serious disregard of financial rules but also generally with the progress and clearance of objections.

389. *Collective reports on Audit.*—After the completion of the year's accounts, a collective report of the Audit Officer concerned upon the Appropriation Accounts* of the year and upon the results of Audit applied to them is presented by the Auditor General in respect of Provincial transactions to each local Government, and in respect of Central transactions to the Governor General in Council, with such comments as he may think fit.

390. There are separate reports on the financial transactions of each of the provincial governments, as well as each of the three principal spending departments of the Central Government—the Army, Railway, and Posts and Telegraphs Departments. The transactions of the remaining departments of the Government of India are considered in a single compilation.

* NOTE.—The term "appropriation accounts" is used to cover accounts of expenditure both from voted Grants and from non-voted Appropriations. (See paragraph 400.)

391. In actual practice two separate documents dealing with the accounts of the majority of these units have hitherto been prepared in each case. The first of these, the Executive Report, was never prescribed in the case of the accounts of the Army Department, and has been discontinued in the case of the all Central. It is likely to be discontinued, as the need for it ceases, in the case of the Provincial accounts also ; but, where still prescribed, it is submitted, in advance of the more important document next described, for consideration by the Executive Government. The second document, which contains the Appropriation Accounts and the Report of the Audit Officer thereon, is intended for submission to the Committee on Public Accounts and is considered both by the Executive Government and by that Committee, and is also submitted by the Auditor General to the Secretary of State through the Governor General in Council, with his detailed comments on each Report and with such further comments of a general nature as he may think fit.

392. *Position before the Reforms of 1919.*—Before 1881 there was practically no appropriation audit in India. On the recommendation of the India Office Committee appointed in 1880 to report on the system of Military Accounts in India, the Secretary of State directed in his despatch No. 46, dated 27th January 1881, that the Comptroller General should prepare annually a report comparing the accounts of the last year with the budget for that year, and with the accounts of the preceding year, with explanations of any important variations ; and in his despatch No. 103, dated 23rd May 1882, he also directed that the report should be submitted to him. The scope of the report remained practically the same till 1912, when it was decided that it should give more explanations on variations, and notes on any abnormal growth of expenditure or tendency to extravagance, and should mention cases of serious breach of financial rules and other important points in audit. In 1913, on the elevation of the status of the Comptroller and Auditor General, the Secretary of State directed that these reports should be addressed to him by the Auditor General and sent through the Government of India.

393. These reports were then a combined publication, and all local and departmental accounts and reports were combined into one by the Comptroller and Auditor General and sent to the Secretary of State in a consolidated form as "Audit and Appropriation Reports on the Accounts of the Government of India."

394. The dominant conception of the Indian constitution before the Reforms of 1919 was that the entire Government system was one indivisible whole and amenable to Parliament. The whole Civil and Military administration of the country was committed to the Government of India, and local Governments were virtually in the position of agents of the Government of India. By Act of Parliament the powers

of superintendence, direction and control over the Government of India were vested in the Secretary of State. He was, therefore, the supreme controlling authority, and it was necessary that the Auditor General should report the results of his audit to the Secretary of State through the Government of India, which was responsible for the financial administration of the country.

395 *Position under the Reforms of 1919.*—The Reforms of 1919 brought in a change in this constitution, by recognising, within the Government of India, the separate existence of the local Governments of Governors' provinces, as component parts of that body. The Secretary of State still remains responsible, under Section 2 (2) of the Government of India Act, for superintendence, direction and control over all acts, operations and concerns which relate to the Government or revenues of India, and all payments and charges out of or on these revenues; and, under Section 21 of the Act, the Secretary of State in Council retains the consequential power of control over expenditure from and appropriation of, these revenues. Similarly, under Section 33 of the Act, the Governor General in Council is still vested with the power of superintendence, direction and control of the Civil and Military Government of India. But these powers are now limited by the insertion of the words "subject to the provisions of this Act or/and rules made thereunder", in recognition of the fact that any degree of minute control by outside authority is incompatible with "the gradual development of self-governing institutions". The removal and relaxation of external control over local Governments were made through divestment and devolution of powers under Section 19-A and 45-A of the Act and rules 13 and 49 of the Devolution Rules. The effect of devolution has been to increase the financial powers of the executive half of the local Government, which still remains amenable to Parliament by the retention of an intermediate responsibility in the hands of the Governor General in Council, and of the ultimate responsibility in the hands of the Secretary of State; while the effect of divestment has been to transfer some subjects to the control of that half of the local Government which is responsible to the local legislature, the Secretary of State and the Governor General in Council retaining powers of intervention in the transferred field in certain limited and definitely prescribed circumstances only, and with the narrowest possible reservations.

396. Again, before the Reforms of 1919 the Legislative Council was in theory only an enlargement of the Executive Government for the purpose of law making. It had practically no hand in the matter of financial control. Under these Reforms, the Legislative bodies became a more popular institution and their existence was recognised as distinct from the executive. In financial matters, their duties include the scrutiny of the Budget and the power of granting demands, to be put

forward by the executive, for expenditure on the administration of Government, with the exception of certain heads which are not to be presented to the vote of that body. The powers granted to the legislatures in regard to the voting of demands have been described in Chapter 15, from which it will be observed that these powers are real, as, unless the Executive Government, or the head of that Government, as the case may be, exercises its powers of certification or authorisation, the voting of the demand is final and the executive has to carry on the administration in regard to voted expenditure within the amount of the grant and within the scope of the demand.

397. The different authorities having been given powers over financial matters, while the Secretary of State retains the supreme power of control, it became a matter for consideration how the reports of the Audit Officers would be considered under the Reforms. It was recognised that, in the exercise of the control over provincial finances entrusted to them, the local authorities would depend largely on the effectiveness of the help rendered by the audit offices, and that they should, therefore, formally receive reports from the Auditor General. Accordingly it was provided in rule 15 of the Auditor General's Rules that the reports should as before be forwarded to the Secretary of State through the Governor General in Council, but at the same time they should be formally transmitted to the Governor General in Council and to the Finance Department of the local Government.

398. *Re-organisation of the Reports.*—The question of the re-organisation of these reports was at the same time taken up, and, as a result, each report was divided into two separate parts :—

- (i) the Audit Report dealing with expenditure under objection, financial irregularities and general comments ; and
- (ii) the Appropriation Report containing appropriation account statements, comments regarding the excesses and abnormal savings brought to notice in it, and provincial finances.

The system of consolidation of all the reports by the Auditor General for submission to the Secretary of State was also discontinued.

399. On the recommendation of the Central Public Accounts Committee of 1923, the question of making the Appropriation Accounts more illuminating was investigated by the Auditor General ; and in 1925 it was decided to re-organise the reports on the lines of the corresponding British Reports, the main features of the re-organisation being :—

- (a) the amalgamation into one of the two separate reports, namely the Audit Report and Appropriation Report ;
- (b) the inclusion of the financial irregularities, embezzlements, frauds, etc., under the proper grant and appropriation in the amalgamated report ;

- (c) the combination of the voted charges of a grant with the non-voted charges of the corresponding appropriation in one Appropriation Account, so as to give a better idea of the expenditure on each particular head of account as a whole, as the two classes of expenditure are in almost all cases closely inter-connected ;
- (d) the appending of store accounts of important stock and trading accounts of the quasi-commercial concerns to the relevant Appropriation Accounts, so as to give a clear idea of the transactions in connection with them brought to account in the general Appropriation Account.

400. Object of the Report on the Appropriation Accounts.—The object of this reorganised report, which is called the “ Appropriation Account and the Report of the Audit Officer thereon ”, is to present the audited accounts of expenditure from all the voted grants and non-voted appropriations of the year, with full explanations of all important variations between grant or appropriation and expenditure, and with such comments as the results of audit scrutiny shew to be desirable.

401. Object of the Executive Report.—It was also decided that a separate report should be submitted, in advance of the Appropriation Accounts and Report, to the Executive Government. The main objects of this report, which is called the “ Executive Report ” are :—

- (i) to bring to the notice of the Executive Government, several months before it is possible to submit the Appropriation Accounts and the Report thereon, cases of financial irregularity, sufficiently important for mention in the Report on the Appropriation Accounts, on which the orders of Government have not yet been passed or, having been passed, are not considered in audit to be entirely adequate ; and thereby to give the Government an opportunity of expediting or reconsidering its orders upon them ;
- (ii) to represent to the Executive Government a comprehensive review of minor irregularities which, while of insufficient importance to justify mention in the Report on the Appropriation Accounts should be a matter of concern to a Government which desires to maintain a high standard of financial administration ; and
- (iii) to suggest remedial and preventive measures for the consideration of the Executive Government, and, if necessary, to comment upon the adequacy of such measures already taken.

It will therefore be understood that the Executive Report concerns the Executive Government only, whereas the Appropriation Accounts and the Report thereon concern the legislature also. It is not however

intended that the Executive Reports shall be a permanent feature of the Indian system, and steps are already being taken to discontinue them wherever the requirements of the Executive Government can be otherwise met.

402. The Appropriation Accounts of the Central Civil expenditure for 1924-25 and the Report thereon were, for the first time, re-organised on these lines; and by 1927-28, the re-organisation of all the Appropriation Accounts and Reports on them was completed.

403. *By whom prepared.*—In certain cases, owing to the separation of accounts from audit, the duty of preparing Appropriation Accounts has been entrusted to officers other than Audit Officers. It is for the Audit Officers concerned to submit the Report on these accounts, as well as to prepare the Executive Report for so long as its preparation is still required. In all other cases both the Appropriation Accounts and the Report thereon and the Executive Report are prepared by the Audit Officers concerned.

404. In respect of expenditure incurred in England by the Secretary of State and the High Commissioner for India, no Executive Reports are prepared. The Appropriation Accounts are compiled by the Accounting Officers in the United Kingdom, and the Reports upon them by the Auditor of the Indian Home Accounts. These Appropriation Accounts are, however, incorporated in the relevant Appropriation Accounts prepared in India in order to present in a single document the combined result of the whole transactions of each Government.

405. *Functions of the Public Accounts Committees of Provincial Legislatures.*—It is necessary to deal here in some detail with the functions of the Committee on Public Accounts. In introducing the Reforms of 1919 it was intended that the removal and relaxation of external control over the provincial field, as explained in paragraph 350, should be “contingent on the existence of a powerful and independent central audit, which will bring financial irregularity and misdeemeanour prominently before the executive and the legislature,” the two guardians of financial propriety in a province.

406. The question then arose how control should be exercised by the legislature, and it was decided that each legislature should have a Committee on Public Accounts which should deal, on its behalf, with the Appropriation Accounts and the Report thereon, and that to make this Committee a popular body not less than two-thirds of its members should be elected by the non-official members of the legislature, the remainder being nominated by the Governor.

407. The duty of the Committee as laid down in the Statutory Rules is:—

- (a) to scrutinise the Appropriation Accounts of the province and the Report of the Audit Officer thereon;

- (b) to satisfy itself that the money voted by the legislature has been spent within the scope of the demand granted by the legislature ;
- (c) to bring to the notice of the legislature :—
- (i) every case of a breach of the principle that no re-appropriation may be made from one grant to another ;
 - (ii) every re-appropriation within a grant which is not made in accordance with the rules regulating the functions of the Finance Department, or has the effect of increasing the expenditure on an item the provision for which has been specifically reduced by a vote of the legislature ; and
 - (iii) all expenditure which the Finance Department has requested should be brought to the notice of the legislature.

408. Under Rule 37(i) of the Devolution Rules the Finance Department of a local Government is required to lay before the Committee the Appropriation Accounts and the Report of the Audit Officer thereon and bring to the notice of the Committee all expenditure which has not been duly authorised and any financial irregularities.

409. *Functions of the Public Accounts Committee of the Central Legislature.*—Similar provisions have been made as regards the control to be exercised by the Central Legislature, and the Finance Department of the Government of India is also required to take similar action in regard to the Central Appropriation Accounts and the Reports of the Audit Officers on them.

410. Although the Committee on Public Accounts is inherently a Committee of the legislature, which is primarily concerned in ascertaining, through its Committee, whether the money granted by it has been spent according to its determination and with due regularity and propriety, the scope of the control exercised by the Committee has been greatly developed so as to make it a valuable instrument for safe-guarding the interests of the tax-payers. It has been held that the Committee is entitled to scrutinise all matters included in the Appropriation Accounts, and in the Audit Officer's Report and the Auditor General's comments thereon, whether in regard to voted or non-voted expenditure, or receipts of revenue, or stores, with the exception of cases arising in a "Backward Tract," to which the provisions of Section 72-D of the Government of India Act do not apply, as the functions of the legislature and its Committee on Public Accounts are regulated by the rules framed under that Section of the Act. The Committee is further entitled to express its opinion upon the conduct of the administrative department in respect of its accounts and upon the decision of the Finance Department affecting the latter, and to criticise improper and wasteful or unwise methods of financial administration.

But the Committee is not an executive body, and has no power, even after the most minute examination and on the clearest evidence, to disallow any item or to issue an order. It can only call attention to an irregularity or to a failure to deal with it adequately, and express its opinion thereon and record its findings and recommendations.

411. *Assistance required of the Audit Officers.*—In order adequately to fulfil these functions the Committee must necessarily rely upon the assistance of the reporting officer who should invite its attention to all unusual features and important irregularities arising out of the audit described in Chapters 12 to 18. Where accounts are compiled by an authority other than the Audit Officer, irregularities are also discovered by the accounts staff of that authority during the course of internal check, and such irregularities also should find a place in the Report. Having decided what information should be brought to the Committee's notice, the Audit Officer should set forth carefully all the relevant facts, explaining the obvious inferences to be drawn from them and the points which appear to require examination, in such a way as to enable the Committee to reach a conclusion on each subject or to determine the nature of any further investigation which may be necessary.

412. *Review of Finance.*—In order to present a comprehensive survey of the financial administration of the government, the report ordinarily includes a general review of the financial position of the Government. In doing so the report should indicate not only the results of the year but should also show whether the position has improved or deteriorated during the past few years, referring to the main causes that have been at work to effect the result. To indicate the present position, the cash situation has to be explained, and in addition the growth or diminution of liability should be indicated. For this purpose both revenue and expenditure should be suitably analysed, and permanent commitments distinguished from those of a temporary character, the former being detailed to the extent necessary and the latter sub-divided as may be suitable. Contingent liabilities, such as estimated expenditure on uncompleted schemes or works, should receive special attention, as well as assets not yet brought to account.

413. *Disposal of the Reports.*—After the reports have been scrutinised and considered by the Public Accounts Committee, it devolves upon the Finance Department to take into consideration any recommendations of the Committee and to issue orders thereon. The report of the Committee and the orders of the Government thereon are then furnished to the Audit Officers concerned and to the Auditor General, and it is open to the Audit Officer in his next report and to the Auditor General in his comments thereon to indicate the action which has been taken in respect of cases previously brought to notice and to comment on the adequacy of the action.

414. When forwarding the reports to the Secretary of State, the Auditor General offers such comments of a general nature as he may think fit after a scrutiny of the accounts of the whole of India so as to present the general trend of audit development and the progress of financial control in India, quoting, where necessary, individual cases of financial irregularity as examples illustrative of his comments.

415. *Importance of the Reports.*—Reports on the Appropriation Accounts are thus public documents of considerable importance. They should, therefore, receive the personal attention of the head of the Audit Office. Every endeavour should be made to convey through them a just, impartial and yet sympathetic picture of the financial administration, as, to the Government concerned, the reports will show the extent to which its subordinate officers are complying with its rules and orders, and to the tax-payers and to the Secretary of State they will exhibit the extent to which the Government is complying with the orders and views of the legislature. It should be borne particularly in mind that the control which the legislature of the province will exercise over the provincial finances will depend largely upon the effectiveness of the help rendered by these reports.

CHAPTER 22.

Relation between the Audit Department and the Finance Departments of the Central and Provincial Governments.

416. *The Auditor General dependent on the Government of India in matters of Expenditure and Administration.*—We have seen in Chapter 3 that the Auditor General in India is, in his capacity as the final audit authority in India, independent of the Government of India. This independence does not, however, cover his powers of expenditure, or his administrative powers over the Indian Audit Department.

417. Such powers of expenditure as the Auditor General possesses are delegated to him by the Governor-General in Council; and in this respect, therefore, he is subordinate to the Government of India. Similarly, the Auditor General's administrative control over the Indian Audit and Accounts Service is largely limited in respect of Officers of Class I and of Accountant General's status.

418. While therefore the Government of India cannot override the Auditor General's authority in audit matters without a reference to the Secretary of State, it is within their power to issue financial or administrative orders in respect of the Indian Audit Department which may, in the opinion of the Auditor General, prejudice the efficiency of the audit for which he is statutorily responsible. For example, the Government of India may dissent from the Auditor General's opinion regarding the number, status, or remuneration of the Gazetted Officers or non-gazetted staff required for the proper conduct of particular audit duties, or in regard to the grant of facilities or encouragement for special training, or on the subject of the selection or posting of particular senior Officers for promotion or duty.

419. If and when such differences of opinion arise, the Auditor General's only remedy would lie in convincing the Secretary of State that his own view is right and that of the Government of India is wrong. He has, however, no direct means of access to the Secretary of State; and, if the Government of India are not prepared to forward any representation which he may make, he must wait to put forward his statement of the case in the annual letter with which he forwards the Appropriation Accounts to the India Office,—this being his sole avenue of access to the Secretary of State.

420. It will thus be seen that, while the Auditor General is, in his audit capacity, independent of the Government of India, he is in fact dependent on the Government of India for the means of giving effect to his audit duties and responsibilities.

CHAP. 22.] RELATION BETWEEN THE AUDIT DEPARTMENT [421-424
AND THE FINANCE DEPARTMENTS.

✓ 421. *Co-operation between the Auditor General and the Finance Departments of the Government of India.*—It is therefore necessary that close touch should be maintained between the Auditor General and the Finance Department,—the Department of the Government of India the portfolio of which includes the subjects with which the Auditor General deals. Close co-ordination is required in connection with the drafting, amendment and interpretation of rules having any financial bearing. In actual practice the Auditor General is generally consulted by the Finance Department before any action is taken; and the general convention is (i) that where, (as in the case of the Fundamental Rules and the Civil Service Regulations) the Governor-General in Council has the power of interpreting rules, the Auditor General is consulted by the Finance Department; and (ii) that where such power is reserved to the Secretary of State in Council, the Auditor General gives audit rulings on disputed cases after first ascertaining if the Finance Department agrees. In all cases in which the Finance Department issues financial rules, whether in the form of Codes or otherwise, these are scrutinised by or on behalf of the Auditor General.

422. Apart from these special matters which concern the direct relations between the Auditor General and the Finance Department of the Central Government, the general principles regulating the relations between the Government of India and the Audit Department in regard to budgets, financial control, the Reports on the results of Audit, and other such matters, differ only in detail from those which have governed the relations between Provincial Accountants General and the Finance Departments of Governors' Provinces since the Reforms of 1919 brought with them a relaxation of the Central Government's control over provincial finance. While, however, the relations have, in the case of the Provincial Governments, been put upon a statutory basis, there is no such basis in the case of the Central Government.

423. *The increased financial powers of Provincial Governments, and the consequent duties of Audit.*—In recommending such relaxation of external control, the Government of India, in paragraph 74 of the First Despatch on Reforms, stated as follows:—

“Withdrawal of external control over provincial finance implies the substitution of effective control within the province. That control in practice must be divided between the Finance Department of the province and the Legislative Council.”

424. The external control mentioned here means the control which the Secretary of State and the Government of India used to exercise over the provincial finances prior to the introduction of the Reforms. The Reforms of 1919 gave the provinces a large measure of financial independence, as described in Chapter 14, as well as large powers of

taxation and borrowing. The former external control has now been replaced by control within the province, partly by the Finance Department and partly by the Legislature, the latter in this behalf being assisted by its Committee on Public Accounts.

425. *The Audit Officer's relation with the Legislature and the Finance Department of the local Government.*—In paragraph 77 of the same despatch the Government of India stated that “standing behind all financial control there must be an effective audit”; and in paragraph 78 they discussed as follows the means of making audit criticisms effective :—

✓ “ With the audit rehabilitated as we should wish, the procedure for making its criticism effective will be as follows :—Each audit report which deals with provincial subjects will be submitted to the Governor, for communication to the executive authority concerned, whether Member of Executive Council or Minister. Copies will go simultaneously to the Finance Department of the Province, which will take orders upon the report. But in each case, the Finance Department will place the report and the orders upon it before the committee on public accounts The committee will have the right to examine all audit objections and executive orders passed upon them, and to make recommendations.”

426. As explained in the previous Chapter, the Auditor General's audit is conducted primarily on behalf of the Secretary of State—the final controlling authority—but his assistance is available to the executive government and the legislature which are now responsible for the internal control. To safeguard the interest of tax-payers the report on the results of audit conducted by the Audit Department is scrutinised by the Public Accounts Committee ; but, as the functions of the legislature, and consequently those of the Public Accounts Committee, as at present constituted, are confined to scrutiny and recommendation, they do not possess any authority to enforce compliance with their wishes. Where a local Government fails to meet the wishes of the legislature on a matter, the legislature has, of course, its own remedies,—remedies of an indirect kind : but no other authority can intervene unless recourse be had to the general powers of superintendence, direction, and control, reserved to the Secretary of State and to the Government of India.

427. In the previous Chapter it has also been shewn how the assistance of the Audit Department is rendered to the executive Government and legislature through the Executive Report and the Report on the Appropriation Accounts. It was, however, recognised that its co-ordination with the Finance Department will be necessary in detailed

matters, and the Government of India in paragraph 75 of the same despatch explained the desirability of it as under :—

✓ “ Finally the Finance Department must be in intimate relations with the audit. It will have to advise the auditor regarding the scope and intentions of schemes of expenditure, having itself been apprised of these in its discussions with the executive authority at the preliminary stages. It will be consulted by the auditor about the detailed application of financial principles and the interpretation of financial rules. It will keep him informed about prices, local rates of labour, and many other facts which are relevant to his audit, but of which he has no direct source of knowledge.”

428. It is especially in connection with the conduct of higher audit, as described in Chapter 17, that the Audit Department can be of service to and should expect assistance from the Finance Department in the exploration of avenues for economy.

429. *Duties of the Finance Department, and corresponding functions of the Audit Officer.*—The statutory provision for internal control of the Finance Department is contained in Section 45-A (2)(iii) of the Act, which provides that rules framed thereunder may “ provide for constituting a finance department in any province, and regulating the functions of that department.” (The functions of the Finance Department) are detailed in Part III of the Devolution Rules framed under that Section of the Act. The more important of these functions (which involve co-operation with the Audit Department) are summarised below :—

- (i) The safety and proper employment of the Famine Relief Fund and of the proceeds of borrowing.
- (ii) The framing of the financial rules and arranging for the maintenance of suitable accounts throughout the province.
- (iii) The preparation of the annual budget estimates.
- (iv) The scrutiny of proposals for new expenditure and guarding against undue growth of expenditure on the public service.
- (v) Taking action on the reports of the Audit Department.
- (vi) Advising departments responsible for the collection of revenue regarding the progress of collection and the methods of collection employed.
- (vii) Controlling the delegations of financial powers by the local Government and the subordinate authorities.

430. In regard to item (i) of paragraph 429, the Finance Department has to see that proposals for the utilisation of the Famine Relief Fund

and borrowed money fall within the objects on which they may be spent under the rules, while the Audit Department has to satisfy itself by its *ex post facto* scrutiny of the expenditure that such funds are actually spent only on authorised objects, and that if loans have been spent on unproductive objects sinking funds have been created under the Local Government (Borrowing) Rules.

✓ 431. In respect of item (ii) of paragraph 429, the Finance Department frames, in consultation with the Audit Department, rules to secure proper financial control, and the latter department has to see that the rules are so framed as to satisfy the requirements of audit and do not impair the efficiency of audit. As regards accounts the Auditor General determines the form in which officers rendering accounts to the Indian Audit Department shall render such accounts, and in which the initial accounts, from which the accounts so rendered are compiled or on which they are based, shall be maintained. Where these accounts do not bring out any particular information which may be required by the local Government for its own special purposes, it rests with the Finance Department to arrange for the maintenance of suitable *pro forma* or other accounts. In such matters it will no doubt find it desirable to obtain the advice of the Audit Department. One branch of work in which these duties of the Finance Department are of special importance is "Local Funds," as these are not subject to the audit of the Indian Audit Department, and the local Government is responsible for making its own arrangements for audit. As regards all accounts maintained by departments under a local Government the Finance Department is responsible for satisfying itself that they are actually kept in accordance with the prescribed rules.

✓ 432. As regards item (iii) of paragraph 429, the Finance Department requires the assistance of the Audit Department in preparing the budget estimates and watching the progress of receipts and expenditure; and the following statutory rules provide for such assistance being given by the Audit Department:—

"The Auditor General shall supply, or shall arrange that officers subordinate to him supply, any information required by the Governor-General in Council or by a local Government which can be derived from the accounts maintained in the offices under his control."

"The Auditor General shall arrange that such assistance as may be required shall be rendered by the officers of the Indian Audit Department to the Governor-General in Council, the local Governments and other authorities in the preparation of their annual budget estimates."

437. The functions of the Finance Department under item (v) also include the duty (explained in detail in Chapter 21) of laying before the Public Accounts Committee the Appropriation Accounts and the Report of the Audit Officer thereon, bringing to its notice all unauthorised expenditure as well as financial irregularities.

✓ 438. In regard to item (vi) of paragraph 429, the Audit Department has to ascertain that adequate regulations and procedure have been framed by the Finance Department to secure an effective check on the assessment, collection and proper allocation of revenue, and to satisfy itself that any such regulations and procedure are being duly carried out. It also suggests improvements in the procedure for collection, and for the internal check applied thereto.

✓ 439. In respect of item (vii) of paragraph 429, above, the Finance Department examines the proposals for delegations of powers to ensure that such delegations are necessary for the convenient and efficient despatch of public business. After the orders for delegations are sanctioned, the Audit Officer has also to satisfy himself in all important matters of delegation that they are not likely to impair seriously the efficiency of the conduct of public business. For instance, the principle of authorising disbursing officers themselves to sanction special charges may be carried too far or extended to cases in which obviously some sort of control by higher authority is advisable. If such cases are important, the Audit Officer should make a suitable representation to the Finance Department, and thus give the latter the opportunity of reviewing or reconsidering the order as the case may be.

✓ 440. Co-operation between the Audit Department and the Finance Department is also necessary in the following matters in which it is prescribed in the Treasury Orders that the concurrence of the Auditor General should be obtained :—

(a) The maintenance or otherwise of a treasury in every district under the charge of a Treasury Officer.

(b) The procedure for the payment of money into, and withdrawal of money from, the treasury.

✓ 441. *Co-operation between the Audit Officer and the Finance Department.*—It will be realised that, though the Audit Officer may and does have to act as the critic of the operations of the Finance Department, the objective of both authorities is in effect the same, namely the safeguarding of economy, efficiency and propriety in public finance. The desired result can therefore be best attained by the establishment of mutual understanding and co-operation.

CHAPTER 23.

Relation between the Auditor General and the Auditor of the Indian Home Accounts.

442. *Position of the Auditor General in India.*—Under Rule 9 (ii) of the Auditor General's Rules, the Auditor General is responsible for the audit of expenditure in India from the revenues of India, and under Rule 2 (d) of these Rules the Indian Audit Department, that is to say, the officers and establishments subordinate to the Auditor General, is employed upon the compilation and audit of accounts of Government transactions in India, the latter duty including the audit of those receipts of revenue and stores and stock the audit of which has, under Rule 12 of the Auditor General's Rules, been entrusted to the Auditor General by the Governor-General in Council. The Audit Department is, therefore, responsible for the audit of Government transactions arising in India, and under Rule 9 (i) of the Auditor General's Rules the Auditor General is the final audit authority in India.

443. *Position of the Auditor of the Indian Home Accounts.*—The administration of that portion of the transactions of the Government of India, (including transactions of both the Central and Provincial Governments) which arises in the United Kingdom, rests with the Secretary of State and the High Commissioner for India. The compilation of the accounts of such transactions, which are maintained in the name of the Secretary of State in Council, is performed by the accounting authorities in England; and, for the audit of these accounts, Section 27 of the Government of India Act empowers His Majesty to appoint an auditor and requires that auditor to "examine and audit the accounts of the receipt, expenditure and disposal in the United Kingdom of all money, stores and property applicable for the purposes of the Act." That Section further requires the auditor to bring specially to the notice of the Secretary of State in Council "cases (if any) in which it appears to him that any money arising out of the revenues of India has been appropriated to purposes other than those to which they are applicable" and to "lay all his reports before both Houses of Parliament."

444. Thus the duty of auditing transactions of the Government of India is, under the Statute, divided between the Auditor General in India and the Auditor of the Indian Home Accounts, the former being responsible for those transactions which arise in India and the latter for those arising in the United Kingdom.

445. *Genesis of appointment of Auditor for Indian Home Accounts.*—The first provision for the appointment of the Auditor of the Indian Home Accounts appeared in the Government of India Act, 1858. Its main object was to provide an independent authority which should scrutinise on behalf of Parliament the exercise by the Secretary of State in Council of the powers entrusted to him by the Act. At that time the Secretary of State in Council was, under Sections 2 and 21 of the Act, the supreme authority in respect of expenditure from the revenues of India. He delegated certain powers to authorities in India, and watched their exercise of those powers through the agency of the Comptroller and Auditor General in India, who was appointed by the Secretary of State but worked in direct subordination to the Government of India. Thus the Secretary of State, as the ultimate spending authority, watched, with the aid of the Comptroller and Auditor General in India, the expenditure of the authorities to whom he had delegated power; while he answered for his own outlay to Parliament, which derived its information from the report of the Auditor of the Indian Home Accounts appointed for the purpose.

446. *Anomalies created by the Reforms of 1919.*—In dealing with the Reforms Scheme, before its introduction, the position of the Auditor of the Indian Home Accounts did not come under consideration; and the arrangements under which two auditors, quite independent of each other and remaining responsible to two different authorities, carry on the audit of transactions of the Government of India have resulted in certain constitutional anomalies.

447. For example, with the reformed constitution, the position as regards expenditure underwent considerable change. In the first place, the ultimate power of sanctioning expenditure in respect of provincial transferred subjects passed from the Secretary of State in Council to local Governments in India. Secondly, specific provision of funds is now necessary before expenditure can be incurred, and in many cases such provision must necessarily, as explained in Chapter 15, take the shape of a vote by a Legislative body in India. Thus a considerable portion of the outlay of the Secretary of State himself is financed from funds so voted, while the Secretary of State is responsible for the application of such funds to an authority other than that which voted them; and an even more anomalous position arose on the creation of the High Commissioner for India, who spends, as the agent both of the central and of the provincial Governments, monies partly voted by their respective legislatures, and partly, in respect of non-voted items, allotted by the executive Governments.

448. Section 27 of the Government of India Act is so worded that, on the creation of the High Commissioner, his accounts became automatically subject to the audit of the Auditor of the Indian Home

Accounts; and the latter is required to lay his reports upon those accounts before both Houses of Parliament. It is inconsistent with the constitutional position of the High Commissioner, who acts as an agent of the Government of India and of the various local Governments, that his accounts should be separately submitted direct to Parliament, rather than as a part of the accounts of the Government of India as a whole. On the other hand, there is no provision in the Act for the submission to the legislatures in India of the report upon the accounts of the High Commissioner, although the expenditure which they represent has been sanctioned either by the executive authorities in India or by the High Commissioner himself in virtue of powers delegated by those authorities, while a large part of the funds to cover the expenditure has been voted by the legislatures.

449. Again, the High Commissioner for India acts under the direct instructions of the Government of India and the local Governments. His financial transactions are governed entirely by those instructions and by such compilations as the Civil Service Regulations and the Fundamental Rules. The great majority of such rules and orders have to be followed by subordinate authorities in India as well as by the High Commissioner. The transactions of the former come under the audit of the Auditor General in India, and it is essential that the officers responsible for the audit in the two countries should interpret the rules and orders in the same way. There is specific provision both in the Civil Service Regulations and in the Fundamental Rules that the final authority for the interpretation of these rules vests in the Government of India; and that authority is in actual practice exercised in direct consultation with the Auditor General, who circulates the interpretations so given as "Audit Instructions." In the abstract, as matters now stand, it is conceivable that a Government servant while on leave in England might obtain a different audit interpretation from that current in India, in regard to his conditions of service.

450. *Arrangements made to cover the anomalies.*—In practice conventional arrangements have been made to meet the more important difficulties pointed out above. The Auditor of the Indian Home Accounts submits to the Government of India all his reports, which, together with the accounts to which they pertain, are in turn laid before the legislature in India and scrutinised by the Public Accounts Committee. The Home Accounts prepared in England are also incorporated in the Appropriation Accounts prepared by the authorities in India in order to show the collective results of all the transactions of a particular Government or Department of the Central Government in a single document. The Auditor also consults the Auditor General in India as to the interpretation of rules which have to be applied both in the office of the High Commissioner and in the offices in India.

PART IV.

The Machinery and Special Processes of Audit.

CHAPTER 24.

Office Arrangements and Procedure.

451. *Arrangements for conduct of work.*—The constitution of Audit Offices and the distribution of audit and accounting duties between them have been discussed in Chapter 5. The arrangements for the conduct of work within these offices are briefly indicated in this Chapter.

452. *Arrangements in the Civil Audit Offices.*—In a Civil Accountant General's office, (including the office of the Comptroller, Assam,) the actual audit, accounting, correspondence and other work is distributed between a number of different sections in accordance with the nature of the work concerned. The inward correspondence, accounts, vouchers, and other receipts of an office are sorted in a Routine Section and distributed to the Sections whose duty it will be to deal with them.

453. The treasury accounts are distributed to the Treasury Audit Group of Sections, which are responsible for their audit and primary compilation. For the sake of convenience, however, the consolidation of the treasury figures under Debt and Remittance heads is made in the Compilation Section, while some special classes of vouchers, such as those relating to Gazetted Officers, Deposits, etc., are made over to separate sections, which are constituted to deal with the audit of such classes of vouchers and with the connected correspondence and other incidental work. Such vouchers after audit are returned by the special sections to the Treasury Audit Sections.

454. In the Treasury Audit Sections one "district auditor" is responsible for the adjustment of the entire treasury accounts of a district and also for the audit of these accounts, with the exception of departmental receipts and payments. The audit of these departmental receipts and payments and their adjustment under proper heads of accounts, and also the consolidation of the departmental figures, are entrusted to clerks known as the "departmental auditors." •

455. After auditing the departmental schedules and all the vouchers relating to them, and recording the transactions in the audit registers, where necessary, the departmental auditors compile the departmental accounts from these schedules and vouchers, and from those received back after audit, from the separate sections mentioned in paragraph 453 ;

while the district auditor classifies under the proper heads of account the figures relating to debt and remittance heads from the List of Payments and the Cash Account, after they, together with the relevant vouchers, have been audited. Some transactions under Debt and Remittance heads also appear in the departmental accounts, and opportunity is taken at this stage to transfer those figures from the departmental account to the district classified accounts, which are then passed on to the Compilation Section for the consolidation of the district figures under the Debt and Remittance heads.

NOTE.—In some cases audit is conducted after compilation (*see* paragraph 101).

456. In many offices a Pre-audit Payment Section deals with the bills payable at Headquarters which are usually audited before payment by the Audit Sections concerned. The paid bills are then sent to the Treasury Audit Department with schedules, and are handled there in the same way as a treasury account.

457. Officers of the Public Works Department, who make payment of bills direct for work done, submit their monthly accounts to the audit offices. These are received and audited in the Works Audit Section and are then passed on to the Compilation Section. Similarly, for Forest and some other departmental transactions, classified accounts are rendered to the Accountant General's office, which, after audit, are passed on to the Compilation Section, which compiles those departmental accounts.

458. From the compilation thus separately made by the Treasury Audit group of sections for each department, or for each major head of account not relating to any particular department, (such as pensions), and by the Compilation Section for certain departmental accounts and Debt and Remittance transactions, the final compilation for the whole circle of accounts is prepared in the Book Section, which also prepares the Journal and Ledger (*see* Chapter 40).

~ 459. In addition to the sections mentioned above, there is a separate Section for conducting Higher Audit, a Section for dealing with the Exchange Accounts, and one for dealing with the Budget and for conducting Appropriation Audit. Some offices have a separate Report Section which prepares the Executive Report (unless and until it is discontinued) and the Report on the Appropriation Accounts.

NOTE.—The procedure described above differs in certain details in the case of the offices of the Accountant General, Central Revenues, the Audit Officer, Indian Stores Department, and the Audit Officer, Lloyd Barrage and Canals Construction.

460. The arrangement for the conduct of audit work by the office of the Director of Audit, United Provinces, and the arrangement for the work conducted by the Examiner of Government Press Accounts and the Examiner of Customs Accounts will be described in Chapter 36.

461. *Arrangement in the Posts and Telegraphs Audit Offices.*—In Posts and Telegraphs Audit Offices the arrangement for the conduct of audit

and accounting work follows, *mutatis mutandis*, the lines described in paragraphs 452 to 459 above. For detailed information, the special Manuals of Procedure for those offices, issued under the authority of the Auditor General, may be consulted.

462. Arrangement in other Audit Offices.—The work done by the Railway, Military and Commercial Audit Offices is differently organized to suit the requirements of their work, which constitutes a test audit of the work done by the departmental officers. For the actual arrangement of work conducted by these Audit Offices the respective Office Manuals may be consulted.

463. Auditor General's Inspections.—The work of all combined Audit and Account offices, and of the office of the Director of Audit, United Provinces, is inspected on behalf of the Auditor General by his two Deputy Auditors General (Inspection). In respect of other offices, the responsibility for inspection rests on the controlling heads of those offices.

464. The object of the inspection is to enable the Auditor General to satisfy himself that the Audit Officers are properly carrying out their duties in accordance with the general principles and the rules prescribed, that the audit is conducted with reference to the canons of financial propriety, and that the Audit Officers recognise their responsibility for looking into the manner in which the various executive officers undertake their more important financial duties.

465. Departmental control.—The heads of Audit and Accounts Offices do not address the Auditor General direct in connection with audit and account matters, but communicate with the Controller of Civil Accounts, the Accountant General, Posts and Telegraphs, or the Director of Railway, Army, or Commercial Audit, as the case may be, who, if necessary, take the orders of the Auditor General on the questions raised. See Chapter 5.

466. A half-yearly report that the work is up to date, together with a short description of, and explanation for, any arrears existing on the last day of the half-year to which the report relates, is submitted by the head of each Audit Office through its controlling head to the Auditor General.

467. Audit and Account procedure.—The work in connection with the audit and compilation of accounts is conducted in accordance with the rules of procedure laid down by the Auditor General in the various Codes issued by him under his statutory authority. All instructions of more or less universal application for permanent observance in the Audit Offices are issued as corrections to those Codes, while in other cases general letters are issued. All rules and orders of a local character relevant to the duties to be performed by an Audit Office are incorporated in the Manuals of the office concerned.

468. Correspondence.—Correspondence bulks so largely in the work of an Audit Office that a few hints on this subject may be not without value :—

- (i) The advice given in paragraph 376 may be reiterated that correspondence regarding objections must be courteous and impersonal.
- (ii) Careful attention should be paid, in drafting, to the arrangement of the subject matter and of the arguments employed, and also to points of grammar, idiom, style, and punctuation.
- (iii) Reminders must be issued at regular intervals if answers are not received in due course. This must not be treated, however, merely as routine work. If reasonable time is allowed for a reply, the receipt of a reminder is a reflection upon the working of an office, and, if two or three reminders fail to elicit a reply, it may be presumed that there is something wrong in the office at fault. The head of that office should then be addressed personally, and, if that action fails to elicit a reply, the matter should be reported personally to that officer's immediate official superior.
- (iv) In the same way, it is not sufficient merely to repeat in successive statements of items placed under objection the items of Works expenditure which have to be placed under objection for want of an estimate or for some other reason. As soon as the delay becomes so serious as to raise a presumption that it is due to defective work in the departmental office the matter should be reported by special letter to the departmental head of the office or other higher authority.

CHAPTER 25.

The Codes and Regulations used in Audit Offices.

469. Evolution of Statutory Rules.—It has already been explained that the Government of India Act did not, prior to the year 1919, contain any recognition of the local Government. The authorities that were recognised by the Statute were the Houses of Parliament, the Secretary of State in Council, the Secretary of State, the Governor General in Council and the Governor in Council. The main alteration that has taken place in the Act of 1919 has been the statutory recognition of a new authority—the local Government. All the orders which will be binding in future upon this new statutory authority and the officers subordinate to that authority must arise out of the statute itself. So far as financial matters are concerned, the rules were previously contained in the old Civil Account Code, Public Works Department Code, Civil Service Regulations, Forest and other Codes, and in the Audit Resolutions. But these were in the nature of collections of executive orders issued by the Secretary of State and the higher authorities in India, and had no statutory authority whatever behind them. Under the Reforms of 1919, it was necessary to evolve rules which should have this authority; and the new sections added to the Act provide for the issue of the several new rules that have since come into existence.

470. New Statutory Rules issued under the Act of 1919.—The sections of the Act from which the more important of the new financial rules originate, the nature of the new rules, and the authorities which may sanction these rules, are indicated briefly below :—

- (i) Section 19-A enables rules to be framed whereby the Secretary of State divests himself of his responsibility for transferred subjects. These rules have been issued by the Secretary of State in Council, with the approval of both Houses of Parliament.
- (ii) The proviso to Section 21 gives the Secretary of State in Council the authority in pursuance of which those of the rules included in the Books of Financial Powers which define the financial powers of the Governor General in Council in regard to Central subjects and of the Governor in Council in regard to Provincial (Reserved) subjects have been issued.
- (iii) Under Sections 45-A and 129-A, the Devolution Rules, prescribing the classification of subjects, the financial arrangements in a Province, etc., have been issued by the Governor General in Council, with the sanction of the Secretary of State in Council and with the approval of both Houses of Parliament.

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- (iv) Under Section 96-B of the Act, the following rules have been, or will be, issued by the Secretary of State in Council :—
- (a) the Civil Services (Classification, Control and Appeal) Rules ;
 - (b) the Fundamental Rules ;
 - (c) the Superior Civil Services Rules ; and
 - (d) the Pension Rules.
- (v) Under Section 96-C, the Public Service Commission (Functions) Rules have been framed by the Secretary of State in Council prescribing the functions of the Commission in regard to the recruitment and control of the Public Services in India.
- (vi) Under Section 96-D (1) of the Act, the Secretary of State in Council has framed the Auditor General's Rules which make provision for the pay, powers and duties, etc., of the Auditor General in India.
- (vii) Under Section 104 of the Act, the Secretary of State in Council has framed the High Court Judges' Rules, fixing the salaries, allowances, furloughs, etc., of the Chief Justices and other Judges of the several High Courts.

471. *Subsidiary Rules.*—Some of the rules mentioned above provide for the framing of subsidiary rules by other authorities. Thus—

- (a) Three sets of rules emerge from the Devolution Rules—
 - (i) Under rule 16 of the Devolution Rules, the Treasury Orders, laying down the general system of treasury control, procedure for the payment of money into and the withdrawal of money from the public account, etc., have been issued by the Governor General in Council with the previous sanction of the Secretary of State in Council.
 - (ii) Under rule 37 (e) of the Devolution Rules, the various Financial Rules, laying down the procedure for dealing with Government transactions and for the maintenance of suitable accounts by Departments, have been or are being issued by the Finance Department of each local Government.
 - (iii) Rule 46 of the Devolution Rules enables the Governor General in Council to issue what are called the Agency Rules, inasmuch as the relations between the Governor General in Council and the local Government in its administration of a Central Subject are that of a Principal and an Agent, and the relations between a Principal and an Agent necessarily connote the right of a Principal to issue orders to the Agent as to the manner in which the latter shall perform these duties.

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OFFICES.

- (b) The Civil Services (Classification Control and Appeal) Rules authorise the framing of the several rules by the authorities in India (*See* paragraph 305).
- (c) The Fundamental Rules* provide for the framing of several rules by different authorities in India. Thus for example :—
- (i) Under rule 44 of these Rules the Central and each local Government have made rules prescribing the conditions under which travelling and other compensatory allowances may be granted to Government servants and others.
 - (ii) Under rule 74 of the Fundamental Rules the leave procedure rules have been issued by the Governor General in Council, local Governments, and the Auditor General.
- (d) The Auditor General's Rules enable the Auditor General to issue (1) what are called the Audit Instructions, and the Audit and Account Codes ; and (2) in his capacity as the administrative head of the Indian Audit Department, rules governing the administration of the Department.

472. Classification of the Rules.—All these rules, except those mentioned at item (d) in the preceding paragraph, may be broadly divided into three classes :—

- (A) those relating to financial administration ;
- (B) those regulating pay and allowances, conditions of service, etc., of Government servants and others performing Government duties ; and
- (C) those relating to the procedure for dealing with Government transactions.

473. The rules mentioned against items (i), (ii), (iii), (v) and (vi) of paragraph 470 above fall under class (A) ; items (iv) (b), (c) and (d), and (vii) of the same paragraph and items (b) and (c) of paragraph 471 above fall under class (B) ; item (iv) (a) of paragraph 470 falls partly under (A) and partly under (B) ; and items (a) and (e) of paragraph 471 fall under Class (C).

474. Scope of the Audit and Account Rules issued by the Auditor General.—The Audit and Account rules mentioned at item (d) of paragraph 471 above, besides prescribing the conduct of business in an Audit Office, indicate how the several rules mentioned above are to be applied in audit, and also lay down the procedure for the maintenance of the accounts of Government transactions in India both in the combined Audit and

* NOTE.—The present Fundamental Rules will, however, shortly become obsolete, as explained later in this Chapter.

Account Offices under the Auditor General, and also at treasuries and in departmental offices.

475. *Relation of the old Codes to the new Rules.*—It is desirable to give at this point a brief account of the manner in which the old Codes have been or are being treated, in order to indicate how the rules in these Codes themselves, or in the new compilations which are replacing them, emanate from the Act of 1919, or from the Rules made thereunder.

476. As regards the Civil Service Regulations, the original intention was that the substantive rules contained therein should be replaced by a set of Fundamental Rules and by the High Court Judges' Rules which have already been issued, and by the Pension Rules which will be issued by the Secretary of State in Council. The procedure rules of the Civil Service Regulations now find a place in the leave procedure rules, or will find a place in the pension procedure rules. Those rules in the Civil Service Regulations which are in the nature of audit instructions have come into the Manual of Audit Instructions issued under rule 9 of the Auditor General's Rules.

477. In regard to the substantive rules in the Civil Service Regulations, the position has since undergone a considerable change. In 1924, certain Statutory Rules and Orders (subsequently described as the Superior Civil Services Rules) were issued by the Secretary of State in Council, prescribing the rates of basic pay, overseas pay, pension, etc., of the members of certain Superior Civil Services and special posts. In the same year, the Civil Services (Governors' Provinces) Classification Rules, were issued by the Secretary of State in Council regulating the classification and control of the Civil Services in India, and the conditions governing appeals made by them. In 1926, the Civil Services (Governors' Provinces) Delegation Rules were issued by that authority delegating to the local Governments of Governors' Provinces the power to make rules regulating the method of recruitment to, and conditions of service, pay, allowances, etc., of Provincial and subordinate Services and of officers holding special posts under the local Governments. In supersession of these sets of Rules, the new Civil Services (Classification Control and Appeal) Rules now authorise the issue of different sets of Rules by each local Government and by the Governor General in Council prescribing the conditions of service, pay, allowances, pension, etc., of different Services as classified in those Rules; while reserving to the Secretary of State in Council the right to frame rules in respect of particular Services. The different sets of rules will now be issued by the respective authorities, while the Fundamental Rules and the Superior Civil Services Rules will undergo a radical change so as to contain those rules only which are issuable by the Secretary of State in Council.

478. Under rule 2 of the Fundamental Rules as they now stand, these rules are not applicable to the civil personnel in the Military Department.

In the absence of specific orders to the contrary, the substantive rules in the Civil Service Regulations which were applicable to that personnel before the Reforms still continue to be applicable.

479. On the introduction in 1922 of the present Fundamental Rules, the existing incumbents, to whom these rules would ordinarily apply generally, were given the option of electing the leave rules contained in the Civil Service Regulations. The leave rules in the Civil Service Regulations are, therefore, still applicable to the comparatively few members of the Civil Services who elected to remain under those rules.

480. The pension rules issuable under Section 96-B have not yet been issued, and in the meantime the pension rules in the Civil Service Regulations have remained in force.

481. As regards the old Volume I of the Civil Account Code (7th edition), this has now been replaced by a number of different Codes and Rules. Thus Volumes I and II of the eighth edition of that Code, and the Forest Account Code, deal with the maintenance of accounts, and the procedure to be followed by officers dealing with treasuries, and by Treasury Officers. Some of the old rules now find a place in the Treasury Orders framed under Rule 16 of the Devolution Rules ; some are rules of account which have to be issued by the Auditor General ; and some find a place in the subsidiary rules which local Governments have to issue under the Treasury Orders ; while the rest are financial rules which local Governments have to issue under Rule 37 (e) of the Devolution Rules, and under the Book of Financial Powers. From the old Civil Account Code also emanates the Resource Manual issued by the Government of India, which contains the rules of procedure to be followed at treasuries in connection with the movement of funds, the custody and remittance of treasure and the supply of currency to the public. In certain matters with which that Manual deals, the local Governments may now also issue rules under the Treasury Orders.

482. The old Volume II (7th edition) of the Civil Account Code has now been replaced by the Audit Code and the Account Code which have been issued by the Auditor General under his statutory authority to frame rules in audit and account matters.

483. In regard to the Public Works Department Code, the old Volumes of the Code (edition of 1908) have been split up, and the administrative Code (Public Works Department Code, 10th edition) was issued some time ago. The account rules have been separated and incorporated in the new Codes issued by the Auditor General, namely the Public Works Account Code, the Audit Code and the Account Code. Most of the rules in the Public Works Account Code are accounts rules which can be issued by the Auditor General, some can be issued as subsidiary rules under the Treasury Orders, and others have to be issued as Financial

Rules by local Governments under Rule 37 (e) of the Devolution Rules. The rules in the Public Works Department Code (10th edition) and the Forest Department Code consist of administrative rules, rules which may be issued as financial rules under rule 37 (e) of the Devolution Rules, and delegations of expenditure powers, and possibly also subsidiary rules which may be issued under the Treasury Orders.

484. Rules issuable by the local Government.—It will be seen from paragraphs 481 and 483 above that the rules which the local Government can now issue under the Treasury Orders, under rule 37 (e) of the Devolution Rules and under the Book of Financial Powers, are scattered in several Codes, namely, the Civil Account Code, Volumes I and II (Eighth Edition), the Forest Account Code, and the Public Works Account Code, issued by the authority of the Auditor General, and the Public Works Department Code (Tenth Edition), the Forest Department Code, and the Resource Manual, issued by the authority of the Government of India. In so far as the new rules, which the local Governments are to issue under the Treasury Orders, rule 37 (e) of the Devolution Rules, and under the Book of Financial Powers, have already been issued, the rules contained in these Codes are no longer applicable to the transactions of the local Government of a Governor's Province. In cases where they have not yet been issued, they will eventually have to be issued by each local Government, and in the meantime the rules contained in the old Codes, with the approval of the local Government, apply *mutatis mutandis* to the transactions of that Government.

485. Rules issuable by the Governor General in Council.—As stated in paragraph 336 the Treasury Orders have no statutory authority in their application to Central transactions, while the functions described in rule 37 (e) of the Devolution Rules are merely those of the Finance Department of a local Government of a Governor's Province. The Government of India have issued orders that, in their application to Central transactions, the Treasury Orders are to be regarded as executive orders issued by the Governor General in Council; but there is no statutory rule, corresponding with rule 37 (e) of the Devolution Rules, prescribing the financial business to be conducted on behalf of the Government of India. It is, however, obvious that financial rules applicable to Central transactions, corresponding with those issued by the local Governments under Devolution Rule 37 (e), have to be issued by the Government of India. The Governor General in Council has accordingly issued orders that the rules contained in the Civil Account Code, Volumes I and II (Eighth Edition), should be considered as describing primarily the procedure to be followed (i) by Government servants in paying into treasuries (or into any branch of the Imperial Bank of India) moneys not derived from sources of provincial revenue and by treasuries in receiving such moneys and granting receipts for them, and (ii) by Government servants in

withdrawing funds from the public account for expenditure upon Central subjects ; and that they describe also (a) the financial rules of the Central Government pertaining to subjects discussed in that Code and (b) the orders issued by the Governor General in Council as Agency Rules to the local Governments. In the absence of any order the relevant rules contained in the other Codes mentioned above, except the Public Works Department Code, are to be regarded also as rules applicable to Central transactions which are required to be issued by the Governor General in Council under the Treasury Orders and under the Book of Financial Powers, and are to be regarded as corresponding with those to be issued by the local Governments under rule 37 (e) of the Devolution Rules. As regards the Public Works Department Code, the Government of India have recently issued a separate publication of their own, and so far as the central transactions are concerned the old edition of the Public Works Department Code is, therefore, regarded as having been superseded by the new publication issued by the Government of India.

486. *Rules issuable by the Auditor General.*—The administrative rules as well as most of the audit and account rules, which the Auditor General has to issue under the Auditor General's Rules, are now contained in the Audit Code and the Account Code. But, as has already been stated, many of the account rules issuable by the Auditor General for observance by the Treasury and Departmental Officers, are also contained in the Civil Account Code, Volumes I and II, (Eighth Edition), the Forest Account Code, and the Public Works Account Code ; and, so far as these account rules are concerned, these Codes are binding on all authorities whether in dealing with Central or with Provincial transactions. No attempt has yet been made to extract these rules from these publications, which also contain the financial rules issuable by other authorities, and to compile them separately. In order, however, to explain how the rules contained in these publications will be treated individually in future, a memorandum relating to each publication was prepared, after consultation with the Government of India, showing the applicability of each of the rules contained therein ; and a reference to that memorandum will indicate which of them are account rules issuable by the Auditor General and which are financial rules issuable by other authorities.

487. The detailed instructions embodied in the Audit Code are intended primarily for the guidance of the Civil Audit Offices. In respect of other Audit Offices, the general rules and principles on which the instructions of this Code are based, and the orders which define the nature and extent of audit to be applied to different classes of transactions, are to be taken as a guide ; but in matters of detail the rules in their respective Codes, issued under the authority of the Auditor General, are applicable.

488. Similarly, the instructions contained in the Account Code are also intended primarily for the guidance of Civil Audit Offices. The

general rules and principles on which the instructions in this Code are based, as well as the detailed instructions relating to the Exchange Accounts, the Finance and Revenue Accounts, and the Review of Balances, apply also to other Audit and Account Offices, subject to any modifications authorised by the Auditor General in each case.

489. Thus, for Posts and Telegraphs Audit Offices there are separate sets of Codes prescribing the detailed procedure to be followed in those Offices. For Commercial and Military Audit Offices there are separate Manuals which deal with the detailed procedure to be followed in them. At present, owing to the recent changes consequent upon the separation of Accounts from Audit, there is no authorised Manual or Code prescribing the details of work to be done in the Railway Audit Offices. Its issue is, however, expected shortly.

490. *Audit Instructions.*—In paragraph 471 (d) it was stated that the Auditor General issues “ Audit Instructions ” under Rule 9 of the Auditor General’s Rules. If the old Audit Resolutions and the new Books of Financial Powers are compared it will be found that some rules in the old have been omitted from the new publication, though from a strict audit point of view the omitted rules continue to be necessary. To take an illustration, *Note 3* under Rule III (2) of the Main Audit Resolution contained an order to the effect that excesses over scales might be admitted by Audit Officers in certain circumstances. These orders were issued with the sanction of the Secretary of State, and they will be as necessary in the future as they were in the past. It is therefore intended that the Auditor General should issue such orders separately as “ Audit Instructions,” as they are really of the nature of interpretations which the Auditor General is authorised to give. Such rules exist not only in the Audit Resolutions, but also in the Civil Service Regulations, and in other Codes such as the Public Works and Forest Department Codes. The intention is that these Codes should not in future contain any rules indicating when a reference to the Secretary of State is necessary. It is in accordance with this principle that Rule IV of the Main Audit Resolution has been omitted from the new Books of Financial Powers. Further, with regard to transferred subjects, the powers of local Governments and of the Secretary of State are fixed in Statutory Rules, and additional powers such as are conferred by these rules cannot be given by the Secretary of State in future under executive orders. To avoid all difficulty, therefore, it has been decided that any orders which are of obvious necessity, and had been sanctioned under the old régime by the Secretary of State, should be issued as “ Audit Instructions.” Besides these orders, these instructions also contain, for the guidance of Audit Officers, interpretations given by competent authorities of particular rules or orders in the new compilations which require elucidation.

491. Codes and Regulations in common use.—Besides the compilation containing the Government of India Act, 1919, and several important statutory rules issued thereunder, the Codes and Regulations in regular use in Audit Offices are :—

- (1) Civil Service Regulations ;
- (2) Fundamental Rules ;
- (3) Several sets of Supplementary Rules issued under item (2) ;
- (4) Superior Civil Services Rules ;
- (5) Several sets of Rules which will now be issued under the Civil Services (Classification Control and Appeal) Rules in replacement of items (1), (2), (3) and (4) ;
- (6) High Court Judges' Rules ;
- (7) Civil Account Code, Volumes I and II, (Eighth Edition) ;
- (8) Public Works Account Code ;
- (9) Forest Account Code ;
- (10) Resource Manual ;
- (11) Public Works Department Code (Tenth Edition) ;
- (12) Audit Code ;
- (13) Account Code ;
- (14) Treasury Orders ;
- (15) Several sets of rules issued by the local Governments under the Treasury Orders, under rule 37 (e) of the Devolution Rules and under the Book of Financial Powers.

Further, the Manuals issued by the Controller of the Currency are also required at times for reference.

For the regulation of pay, allowances, pension, etc., of the personnel of the Army and Marine Departments, other than the Civil personnel, there are separate sets of rules and orders issued under the Army Act, and a reference to these will be found in Chapter 36.

CHAPTER 26.

Remuneration of Gazetted Officers and of Establishments.

492. *Pay Bill*.—A pay bill is the descriptive name given to the bill drawn for pay or leave salary of gazetted or non-gazetted Government servants.

The essential points in the audit of such bills are to check—

- (a) the title of the Government servant to the remuneration drawn by or for him ;
- (b) in the case of Government servants whose remuneration is drawn for them, that they receive the remuneration to which they are entitled.

REMUNERATION OF GAZETTED OFFICERS.

493. *Gazetted Officers' pay bills*.—Each gazetted officer is permitted to draw his pay month by month on a separate bill. Some non-gazetted Government servants, (as for example, Tehsildars, Sub-Assistant Surgeons, etc.), who belong to establishments fixed with reference to the requirements of a whole province, are also allowed to draw their pay on separate bills. The form of the bill needs little description. The essential details are the same as those contained in the authority (called pay slip) issued to the drawer by the Audit Officer. This is described in the concluding portion of paragraph 497.

494. A gazetted officer is so called because the orders intimating any change in his posting or status or the grant of leave to him are contained in the Government Gazette.

495. *Audit of Gazetted Officers' pay bills*.—The system of audit adopted for such bills, in order to check the title to the remuneration drawn, is as follows :—

All payments are recorded in an audit register in which one or two folios are allotted to each officer. The main features of this register are two sets of cages, in one of which are entered the emoluments to which the Officer is entitled, as varied from time to time by each order published in the Government Gazette, or otherwise communicated, and in the other are recorded the amounts drawn by him month by month. There are subsidiary cages for the record of :—

- (a) Orders authorising each alteration of emoluments.
- (b) Particulars of the various posts held, or of any leave granted.
- (c) Explanations of (i) peculiar payments which would include any payments not immediately identifiable by reference to the entry in the emoluments column ; and (ii) broken periods for which emoluments are paid at different rates.

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(d) Particulars of objections raised, and their adjustment.

(e) Adjustment of long term advances.

496. It is apparent that the most important part of the audit is the record of each entry in the cages for emoluments permissible. Each alteration must be based on an order published in the Government Gazette, or otherwise communicated, and the various audit rules have to be applied carefully in determining the emoluments permissible in accordance with the orders passed by Government. Every alteration of emoluments, therefore, has to be passed by the Gazetted Officer in charge of the section. At the same time an intimation is sent to the officer concerned, and to the Officer in charge of the treasury at which he draws his pay, specifying the amount which he may draw in accordance with that order of Government. This intimation is called a "pay slip."

497. *Increments on time scales of pay.*—Under the Fundamental Rules, an increment on a time scale of pay can be drawn as a matter of course, unless it is withheld by special orders or an efficiency bar is reached. It has therefore become unnecessary to notify the grant of ordinary increments either in the Gazette or otherwise. It has also become possible to reduce the use of pay slips to a minimum. The slip in now so worded that it remains in force for a considerable time, as in the following form:—

Mr..... is informed that under order No..... dated..... (Gazette page.....), he is entitled to draw pay and allowances at the monthly rates shown below from the dates specified:—

Details of calculation.

—	From	From	From	From
Substantive pay				
Officiating pay				
Overseas pay				
Special pay				
.....				
.....				
.....				
.....				
.....				
TOTAL				

The scale of pay is Increment accrues on every year, and, in the absence of instructions to the contrary, this may be drawn till the stage of * is reached.

* Here state the stage at which a pause or an efficiency bar operates.

498. A fresh slip is issued on the following occasions :—

- (i) whenever any increment is stopped ;
- (ii) whenever a pause or an efficiency bar, or any other bar against the grant of a particular increment, is removed ; and
- (iii) whenever there is a change of any kind of emoluments, otherwise than by accrual of an increment in the ordinary course.

499. *Scale register.*—The orders passed by Government have first to be checked by the Audit office in order to see that they are admissible. In some Provinces it is the custom for Government to send the orders in draft to the Audit office so that they may be checked before issue. The main portion of this check is carried out by means of the scale register in which is recorded the number of posts sanctioned in each grade or class of the service and the officers on duty month by month in each grade or class. The entries in this register have to be revised whenever an event occurs which takes an officer out of, or brings him into, the scales, as for instance change of post, promotion, or temporary duty, death, retirement, dismissal, resignation, or departure on and return from foreign service, other duty, or leave. In the case of Services in which the graded system has been abolished, a simplified scale register is used in which the total numbers of officers holding the sanctioned posts is revised only on the occasion of any change.

500. *Sterling overseas pay.*—Under rule 4 of the Superior Civil Services Rules, 1924, the concession of the payment in England of overseas pay in sterling is permissible (i) under clause (a) or (b)—to an officer who has a non-Asiatic domicile at the date of his appointment to one of certain specified Services ; and (ii) under clause (c)—to an officer in one of certain specified Services who is entitled to overseas pay and has a wife or legitimate children elsewhere than in Asia. Audit has to see whether an officer is eligible to receive overseas pay under clause (a) or (b), and the High Commissioner for India has to see whether an officer comes under clause (c). Officers in India who are entitled to Sterling Overseas Pay submit their claims in separate bills to their respective Audit Officers, who, after audit, consolidate them in a monthly statement and send it to the High Commissioner. The latter officer, when once authorised to make payments of Sterling Overseas Pay to an officer at a certain rate, continues to pay at that rate until advised to the contrary, and verifies the payments actually made against the amounts reported as due in the monthly statements received subsequently from the Audit Officers in India, any short or excess payment being settled after correspondence by subsequent payment or recovery.

501. *Passage Concessions.*—Under rule 12 of the Superior Civil Services Rules, 1924, free passages are granted (i) to any Government

servant who belongs to a Service or holds substantively a permanent post specified in Appendix (A) to schedule IV of those rules and who had at the date of his appointment to such Service or post his domicile elsewhere than in Asia, and (ii) to any member of the Indian Civil Service who had at the date of his appointment, thereto his domicile in Asia and who is or has at any time been entitled to overseas pay, or would have been entitled had he been on the time scale. The wife and children of these Government servants are also entitled to similar concessions. The number of free passages admissible varies in different cases, the maximum being four return passages.

502. Audit maintains a separate Passage account, outside the Government Account, for each such Government servant and for each member of this family. These accounts are credited with the cost of the number of passages to which the Government servant, his wife, and his children, are entitled, and is debited with the cost of the passages actually engaged. The balance, if any, remaining at the credit of any person in his or her personal passage account after such person has ceased to be eligible for any benefits under the Passage Regulations, lapses to Government.

503. Leave account.—For each gazetted officer a leave account is also kept in the Audit Office, showing the period during which the officer was on duty, the leave earned by him, the leave actually taken, and the balance at his credit. From the entries in the account it is possible to calculate the leave admissible to an officer at any given date.

504. History of services.—Finally a history of services is maintained for each gazetted officer, in which are recorded his headquarters stations, substantive appointments, officiating appointments involving a change of duties, dates of alterations of appointments, grants of leave of all kinds, and absence without leave or in excess of leave or joining time. Pension calculations are based on this record.

REMUNERATION OF ESTABLISHMENTS.

505. Pay bills of Establishment.—The form of the pay bill of establishment is different from that of gazetted officers. It has columns in which are entered the name of each section and of each incumbent of a post, the name of each post in that section, and columns in which are recorded, in separate entries, the substantive pay, additional pay for officiating, special pay and leave salary drawn for each incumbent. There are subsidiary columns for pay, etc., held over for future payments, recoveries, fines, fund deductions and income tax. The officer signing the bill has to record certain certificates that pay previously drawn has been disbursed and receipts taken, that any leave granted was

admissible, that all appointments and promotions have been recorded in the service books, and that an absentee statement accompanies the bill, or that no person in superior service has been absent on other duty or suspension or on leave. This absentee statement is a most important part of the establishment bill. In it are shown the name and designation of each absentee, his pay, the other duty on which he is employed, or his leave salary, as the case may be, the name, designation and pay of the officiating Government servant and the additional pay permissible for officiating.

506. Audit of pay bills of Establishment.—The system of audit of such bills is also different from that of gazetted officers' bills. The unit here is not the officer but the section of the office in which he is working. In the establishment register, therefore, the main columns are—

- (i) Name of the section and of the posts sanctioned therein.
- (ii) The pay of each post in the section.
- (iii) The order of Government prescribing any variation in the pay of the section.
- (iv) Monthly columns, in which are entered the amounts drawn for that section month by month.

507. This method of audit is called sectional, while the method of audit applied to the bills of gazetted officers is called nominal. In reality it is not strictly sectional inasmuch as the pay sanctioned for each post in the section is shown separately. If the audit were purely sectional there would merely be a record of the number of posts in that section and the total pay sanctioned. This variation from strict sectional audit is necessitated by the rule that an officer is not permitted to grant to any subordinate a higher pay than that fixed for the post which that subordinate is holding, so that the pay allotted to each post has to be entered in the register in order that the Audit office may check that this rule is duly observed. To describe the actual entries which have to be made in the columns for amounts drawn, and the reasons for making each class of entry, would be to enter into an amount of detail which would be out of place in this Manual.

508. The audit of pay bills of establishments the normal cost of which is less than Rs. 500 has recently been relaxed to 50 per cent, precautions being taken to ensure that the bills of no establishment escape detailed audit over a long period.

509. Audit of pay bills of Establishments on time scale rates of pay.—A time scale rate of pay has now been sanctioned for most establishments and this has necessitated modifications in the existing procedure of audit. On the conversion of a graded establishment into one on a time-scale rate of pay it is of vital importance to scrutinise the calculations of the

initial rate of pay fixed for each Government servant ; and once such rates are fixed the increments accrue year by year almost automatically. Where initial rates are dependent to any extent on service they can be checked only with the service books which are all in the districts. This work can therefore be best done at local inspections. Where such inspections are not possible the service books should be requisitioned by the Audit office for the purpose of the necessary check.

510. The following procedure has been laid down, for the present, for auditing the pay bills of establishments on time-scale of pay :—

- (i) Such establishments fall under two groups,—(i) those for which an establishment return is furnished annually by the Head of each office ; and (ii) those for which no such return is furnished.
- (ii) In cases where no establishment return is received, the audit is by numbers only. If a sanctioned cadre contains its own leave reserve, the number entered in the Audit Register is the sum of the number of Government servants drawing pay, and of those drawing leave salary. If, in a cadre, officiating arrangements in leave vacancies are permissible, the number drawing (i) substantive pay, (ii) leave salary and (iii) officiating pay is noted separately in the Audit Register, and the audit consists in seeing that (i) plus (iii) is within the sanctioned scale.
- (iii) (a) In the case of establishments for which an annual establishment return is received, the audit is by numbers as well as against the permissible expenditure. The numbers entered in the Audit Register are :—
 - (i) when a cadre contains its own leave reserve—the sum of the numbers of men drawing pay and of those drawing leave salary.
 - (ii) if the cadre does not contain its own leave reserve—the sum of the numbers of men drawing pay (substantive or officiating).

The audit check consists in seeing that this number does not exceed the sanctioned scale.

- (b) For audit against the permissible expenditure, the first permissible expenditure on the introduction of a time scale is worked out on the fly-leaf of the Audit Register from the statement showing the initial pay fixed for each Government servant, and the date of his next increment ; and for April of each year it is checked with the annual establishment return. For this purpose, all men on duty temporarily outside the

cadre or on leave are counted as if on duty; the pay of temporary men officiating in permanent vacancies is added, and for each unfilled vacancy is added the minimum pay of the post. Corrections are made in the permissible expenditure during the course of the year only in regard to such permanent factors as increments, retirements and deaths, and consequent new appointments, and increases and decreases of scale. These events are notified to the Audit office in Increment Certificates, or in the remarks column of the pay bill, or in the sanctions to scales, as the case may be. The savings and extra cost on account of leave and officiating arrangements, etc., which are worked out from the Absentee Statement are posted in the audit cage in the course of audit. The total of the bill is posted in the register in black ink, and the sums held over in red ink. The extra cost and savings are also noted in the Audit Register in red and black ink respectively from the Absentee Statement. It should then be seen that the total of the amounts entered in black ink (that is the total of the bill and savings) *plus* the amount held over *less* the extra cost (as recorded in red ink) does not exceed the permissible expenditure.

- (c) In auditing a bill it is first of all necessary to check all items in the bill corresponding with entries in the Absentee Statement, and, at this stage the admissibility of the leave salary and the officiating pay will come under audit. The increment certificates are next audited, first against the fly-leaf and then in the bill itself. Then are audited the remaining items in the bill against which there is some entry in the remarks column. The extra cost and savings to be entered in the Audit Register are also worked out during this process of audit.
- (d) Once a year all the bills of one selected month are test-checked, in respect only of the rates of pay drawn in them. Any errors found in this month's bills must be traced through the bills of the year or years concerned.
- (e) The subsequent drawals of amounts held over for future payments, or refunded, are audited against notes previously recorded in the Audit Register in respect of such items.
- (iv) Audit Officers have been authorised to undertake the check of a small percentage of the leave accounts which are maintained in the local offices for non-gazetted Government servants; the work is usually done during local inspection. It is supplemented by central check when this is found to be desirable.

511. Accountants General have discretion to apply nominal audit, instead of the system explained in the last two paragraphs, in any cases where they find that such nominal audit will be much more efficient.

STATUTORY RULES.

512. *Application of the Statutory Rules.*—The documents mentioned above are the most important of those to which the Audit Officer has to apply the statutory rules issued with regard to pay and allowances, leave, and leave salary.

513. In certain classes of cases, the terms of service are governed not by the Statutory Rules but by a contract effected between an individual person and the Secretary of State in Council or an authority in India acting on his behalf. In such cases, the Audit Officer regulates his audit in accordance with the terms of the contract. But he must examine such cases with special care, because a contract cannot prevail against the terms of the Statutory Rules in the case of any person whose conditions of service are by law required to be regulated by Statutory Rules.*

514. A brief summary is given below of the more important of those Statutory Rules which are applicable to Central Government servants and members of All-India Services. The Civil Services (Governors' Provinces) Delegation Rules give power to local Governments to frame their own rules on these subjects, which require to be studied separately. Those local Governments which have already taken action in the matter have followed the main lines of the Central Rules.

515. *Lien.*—The fundamental basis of a Government servant's emoluments is the amount fixed as the pay of the post he holds substantively. In this connection it is necessary to explain that, on substantive appointment to a permanent post, a Government servant acquires a right, summarised in the word "lien", to hold that post substantively, either immediately or on the termination of a period or periods of absence.

516. The connotation of the word "lien" can best be understood if it is explained that, in respect of every permanent post, there is one Government servant who has a prior right over every other Government servant. This one Government servant may be employed on other duty, in which case another may take his place; but, if the other duty comes to an end, he has a right to return to the post on which he holds a lien, displacing his successor, unless his lien be transferred to some other

* NOTE.—At the time of writing, it is under consideration whether this position will be maintained or not.

post. The rules regarding the transfer of lien are so framed as to safeguard the interests of Government servants. For obvious reasons no Government servant, substantively appointed, may be left without a lien on a permanent post.

517. If a Government servant is transferred to duty which there is reason to believe will not terminate within three years, and retains no connection with his substantive post, a local Government may suspend his lien on the post and fill it substantively, subject to the condition that the arrangement thus made will be reversed on the return of the Government servant in question.

518. *Pay.*—It will thus be understood that the pay drawn by a Government servant may be the pay of the post on which he holds a lien, or the pay of some other post. The term “pay” includes overseas pay, technical pay, special pay and personal pay, and any other emoluments which may be specially classed as such by the Governor-General in Council. Overseas pay is pay granted to a Government servant for serving in a country other than the one of his domicile. Special pay is an addition to pay granted either for extra duties performed or for the unhealthiness of the locality in which the work is performed. Personal pay is an addition granted to save a Government servant from loss of substantive pay in certain circumstances for which provision is made in the rules.

519. *Fixation of Pay on a time-scale.*—A Government servant appointed substantively to a post on a time-scale of pay draws as initial pay the minimum of the time-scale, except in cases in which the Fundamental Rules allow of his initial pay being calculated at a higher stage on the basis of his previous service and / or the substantive pay which he has already been drawing in another post.

520. A Government servant holding a post substantively who is appointed to officiate in another post may not draw pay higher than that of his substantive post, unless *either* the post in which he officiates is one of those enumerated in the Schedule to Fundamental Rule 30, *or* in the circumstances mentioned in the following paragraph.

521. A Government servant officiating in a post draws the pay to which he would be entitled if he were appointed to that post substantively, subject to the condition that he may draw instead the pay to which he would be entitled in his permanent post if that be greater.

522. *Compensatory allowances.*—A Compensatory allowance is an allowance granted to meet personal expenditure necessitated by the special circumstances in which duty is performed. It includes a travelling allowance. A local Government may grant such allowances to any Government servant under its control and may also make rules prescribing their amounts and the conditions under which they may be drawn. Compensatory allowance does not include the grant of a free passage to or from the United Kingdom, which requires the general or special sanction of the Secretary of State in Council, nor does it include a sump-tuary allowance.

523. *Fees and Honoraria.*—Unless in any case it be otherwise distinctly provided, the whole time of a Government servant is at the disposal of the Government which pays him, and he may be employed in any manner required by proper authority, without claim for additional remuneration, whether the services required of him are such as would ordinarily be remunerated from general revenues, from a local fund, or from the revenues of an Indian State.

524. A Government servant may be permitted by the general or special order of a competent authority, if it be satisfied that this can be done without detriment to his official duties or responsibilities, to perform a specified service or series of services for a private person or body, or for a public body (including a body administering a local fund), or for an Indian State, and to receive as remuneration therefor, if the service be material, a non-recurring or recurring fee. The acceptance of fees by medical officers in civil employ for professional attendance is regulated by the orders of the Secretary of State for India in Council.

525. A Government servant may be granted an honorarium from general revenues as remuneration for work performed which is occasional in character and either so laborious or of such special merit as to justify a special reward. Except when special reasons, which should be recorded in writing, exist for a departure from this provision, an honorarium should not be granted unless the work has been undertaken with the prior consent of the sanctioning authority, and its amount has been settled in advance.

526. A local Government may make rules fixing the amounts which may be sanctioned by the authorities subordinate to it for acceptance by a Government servant (other than a medical officer in civil employ) as honoraria, and specifying the conditions under which they may be granted

527. *Special and Ordinary Leave Rules.*—Leave rules are, under the Fundamental Rules, divided into two classes—special leave rules and ordinary leave rules. The conditions governing admission to the benefits of the special leave rules are laid down in Fundamental Rules 75, 75-A, 75-B, and 75-C; Government servants not so admitted are subject to the ordinary leave rules. The main features of these two sets of leave rules, and the differences and resemblances between them, must be studied in the Rules themselves.

528. *Leave Rules of certain high officials.*—The leave rules mentioned above are not applicable to the following Government servants, whose leave is governed by the Government of India Act or by rules framed under the Act—

- (a) Governors and Lieutenant-Governors, Members of the Executive Council of the Governor-General, or of a Governor or Lieutenant-Governor, during their tenure of office as such ;
- (b) The Chief Justices and other Judges of the several High Courts ;
- (c) The Bishops of Calcutta, Madras and Bombay ;
- (d) The Auditor General in India ;
- (e) The Chairman and Members of the Public Service Commission.

The grant of leave to the Presidents of the Legislative Bodies is governed by orders issued in this behalf by the Secretary of State in Council.

529. *Leave Salary.*—The Rules should also be studied regarding the periods for which and the conditions under which a Government servant is entitled, during periods of leave due, to average pay, half average pay, or quarter average pay. Certain monthly maxima and minima are also fixed to which these averages are subject. These limits are prescribed in rupees and in sterling, the rates being applicable to leave salaries paid respectively in rupees and in sterling under the principle mentioned in paragraphs 531 and 532.

530. *Average pay.*—Average pay is the average of the monthly pay earned during the twelve complete months immediately preceding the month in which the event occurs which necessitates the calculation of average pay ; and the calculations of half average and quarter average pay are made on the same basis.

531. *Drawal of leave salary.*—The portion of leave salary representing sterling overseas pay should be paid in all cases in sterling. Subject

to this condition leave salary is payable in rupees if due in respect of leave spent in Asia, and in sterling if due in respect of leave spent out of Asia. As an exception to this, a Government servant may draw leave salary in sterling in respect of the first four months of leave on average pay, whether taken by itself or in combination with other kinds of leave, although he spends such leave in Asia, provided that he proceeds out of Asia during the currency of such leave or within one month of its termination. Similarly, leave salary due in respect of any portion of such leave spent out of Asia may if desired be drawn in rupees. In the case of leave of any other description, or of periods of leave on average pay after the first four months of such leave, leave salary in respect of the whole of such leave may be drawn in sterling provided that the amount of such leave spent in Asia prior to embarkation does not exceed one month.

532. Leave salary drawn in rupees must be drawn in India, or in Ceylon if the Government servant spends his leave in Ceylon. Leave salary drawn in sterling must be drawn in London, or, at the Government servant's option, in any British Dominion or Colony prescribed by the Secretary of State, provided that the officer spends his leave in the Dominion or Colony in which he has elected to draw his leave salary.

533. *Leave Account.*—For each Government servant a leave account is maintained, in terms of leave on average pay, in which all periods of leave earned are credited and all periods of leave taken are debited. The amount of leave due to a Government servant is the balance at his credit in the leave account.

534. *Grant of leave not due.*—Leave not due may be granted in certain specified circumstances. Such leave is debited in the leave Account, and is intended to be regarded as an advance of leave, and its grant should therefore be limited to the amount that both (a) can be and (b) is expected to be earned by subsequent duty; further, it is meant to be granted only in exceptional circumstances, such as illness or urgent private affairs. When the exceptional step of granting such leave is taken, it should be irrevocable, except at the request of the officer, who should not be penalised, if reasonable anticipations fail to materialise. During such leave a Government servant is entitled to leave salary equal to half average pay.

535. *Extraordinary Leave.*—In special circumstances, and when no other leave is by rule admissible, extraordinary leave may be granted. Such leave is not debited against the leave account, and no leave salary is admissible in respect of it.

ALLOCATION OF CHARGES ON ACCOUNT OF LEAVE SALARY.

536. *Adjustment of leave salaries.*—Whether leave be granted under the rules applicable to Central Government servants, or under those

framed by local Governments, the leave salaries of Government servants are debited according to the following rules :—

- (i) When a Government servant had served under one Government only before proceeding on leave, his leave-salary will be debited to that Government.
- (ii) When a Government servant is transferred to service under a Government other than that under which he was first employed, the leave salary drawn by him during any leave taken after the date of transfer shall be charged to the borrowing Government until the entire leave earned under that Government has been exhausted.

CHAPTER 27.

Travelling Allowance.

537. Powers of the Central and Provincial Governments to frame rules.

—As a result of the Reforms of 1919, the Government of India and each local Government have been empowered to frame rules regulating the grant of travelling allowance to Government servants under their administrative control, subject to the condition that the allowance is not on the whole a source of profit to the recipient.

538. Acting on this delegation the Government of India and the local Governments have framed their travelling allowances rules to cover the requirements of different classes of journey which a Government servant may have to perform, as for example :—

- (i) On tour ;
- (ii) To join a post on first appointment ;
- (iii) On transfer ;
- (iv) To a hill station, and in recess ;
- (v) To attend an examination ;
- (vi) When proceeding on leave ;
- (vii) On retirement, dismissal, or termination of appointment ;
- (viii) To give evidence ;
- (ix) To obtain medical advice ;
- (x) To attend an incapacitated Government servant ;
- (xi) On a course of training ;
- (xii) To attend a durbar or levée.

The various sets of rules so framed differ considerably from each other.

539. Special rules are also framed governing the journeys of High Officials, of Government servants who are not in the Civil Service of the Crown, and of persons who are not Government servants.

540. *Rules framed by the Central Government for journeys on tour.*—An attempt has been made to give below a summary of the travelling allowance rules framed by the Governor-General in Council to govern the journeys on tour of Government servants whose pay is debitable to Central revenues and who are not under the administrative control of a Governor acting as an agent of the Governor-General in Council. It would be out of place to attempt, in this Manual, to give particulars of the rules governing all classes of journeys mentioned in paragraphs 538

and 539 above. These rules, including those which have been briefly summarised in this Chapter, must be studied in detail in the Statutory Rules, Codes, and Manuals in which they are prescribed.

541. Classification of Government servants under the Central Government.—For the purpose of calculating travelling allowance, Government servants under the Central Government are divided into four grades. The main criterion for classification is the pay drawn by the Government servant. The first grade includes all those whose actual pay exceeds Rs. 750 a month; the second those whose actual pay exceeds Rs. 200; the third all other Government servants in superior service whose actual pay does not exceed Rs. 200; and the fourth comprises persons in inferior service. Government servants may, for special reasons, be included in a grade higher or lower than that determined by the above criterion.

542. Daily allowance.—The main item of travelling allowance is the daily allowance, that is to say, the amount which an officer draws each day on which he travels more than 5 miles away from his head-quarters. This allowance is ordinarily not admissible for more than 10 days of a halt at one place. This restriction is based on the ground that expenses usually decrease as the length of a halt increases, and ensures due expedition in a journey. Certain officers are, however, allowed general or individual exemptions from this restriction when prolonged halts are necessary in the interests of the public service and entail extra expense.

543. Mileage.—An officer is, however, allowed to draw mileage instead of daily allowance when he travels more than 20 miles by road, or when he travels by road in continuation of a rail or steamer journey, in which case the mileage is limited to the amount of daily allowance unless the journey by road exceeds 20 miles.

544. The scale of daily allowance and mileage admissible to Government servants to whom these rules apply has been fixed according to the grade of the Government servant. When a Government servant travels within the territories administered by a local Government which has fixed special rates of daily allowance or mileage for Government servants under its administrative control, he must draw the daily allowance or mileage at the rates fixed for a Government servant drawing the same pay in those territories.

545. Rail and steamer fares.—When travelling by railway, a Government servant of any of the first three grades is allowed for the journey, instead of the daily allowance, $1\frac{2}{3}$ the fare of the class in which he is entitled to travel according to the grade into which he falls for the purpose of travelling allowance. When travelling by steamer he is similarly allowed, instead of daily allowance, $1\frac{2}{3}$ the fare of the class in which he is entitled to accommodation according to his grade. In cases where a steamer company has two rates of fare, one inclusive and the other

exclusive of diet, the allowance admissible is $1\frac{3}{5}$ the fare exclusive of diet. An inferior servant is allowed a single fare of the lowest class and in addition ordinary daily allowance when travelling by rail, and double the rate of daily allowance when travelling by steamer.

546. Rates when Government supplies means of locomotion.—A Government servant of any of the first three grades who uses a means of locomotion provided at the expense of Government, of a local fund, or of an Indian State, but pays all the cost of its use or propulsion, draws the travelling allowance ordinarily admissible for the journey subject only to the deduction of such hire as may be determined by rule. If the cost of such use or propulsion is not paid by the Government servant he is allowed only the daily allowance. If part of the journey is made by other means of locomotion he may exchange the daily allowance for the mileage admissible for that part. If the Government servant has to provide conveyance for his servants or luggage, he is allowed, in case the journey is by road exceeding 20 miles or is a road journey combined with one by rail or sea or river steamer, to exchange his daily allowance for half the mileage allowance calculated for such journey and to draw in addition the mileage allowance admissible for any part of the journey made by other means of locomotion.

547. If a Government servant travels by a motor car supplied to him at the expense of Government, he may draw :—

- (a) if he travels by the motor car more than 20 miles in one day, the mileage allowance of his grade for the first 20 miles, and three-fourths of that rate for the remainder of the journey ;
- (b) if he combines with a journey by the motor car a road journey by other conveyance, he may draw the mileage allowance admissible for the first 20 miles or for the journey by other conveyance, whichever is greater, and for the remainder of the journey three-fourths of such mileage allowance ;
- (c) if he combines with a journey by road, whether made wholly or partly in the motor car, a journey by railway or steamer, he may draw mileage allowance for the journey by railway or steamer in addition to the allowances admissible under clauses (a) and (b) above for the journey by road.

548. Permanent travelling allowance.—When officers are employed on duties which involve extensive touring, permanent monthly allowances are sometimes granted in lieu of all other travelling allowances for journeys within an officer's circle of duty. Such allowances are given all the year round whether the officers are on tour or not. There is a tendency for the extension of this form of allowance as it simplifies clerical work. The substitution of this allowance for all other allowances does not, however, relieve the controlling officers from the

responsibility for watching that officers serving under them undertake all the journeys that they are expected to make.

549. Conveyance allowance.—Another modified form of permanent travelling allowance is the grant of a conveyance allowance to officers who have a large amount of travelling at or within a short distance from their headquarters for which travelling allowance is ordinarily inadmissible.

550. Bill forms.—Claims for travelling allowance are submitted on bills which are drawn up in such a way as to give all the information necessary to ensure the proper check of the bill. Thus they show the name of the officer, his head-quarters, the purpose of the journey, the dates and, in some cases, hours of the journey, the route by which it is performed, the distance travelled by road (whenever it is necessary to enter this particular), railway fare, steamer passage money, number of days halted, etc. These bills are submitted in the first place to the controlling officer. Some controlling officers supplement the entry in the column for the "purpose of journey" by requiring diaries or journals to be submitted by officers indicating what those officers have done during each tour. The controlling officer, having countersigned the bill in token of his check, returns it, and the officer who performed the journey then obtains payment of the bill at the treasury.

551. Audit.—On its receipt in the Audit Office the bill is audited either by the departmental auditor or in some cases in a separate section, such as the special section for auditing the claims of gazetted officers. Only 50 per cent. of the travelling allowance bills of Government servants of the 3rd or 4th grade (*see* paragraph 541) are audited in full detail in each month—the selection being made by a Gazetted Officer.

552. Main points of Audit.—The main points to which attention is directed in the audit of travelling allowance bills are:—

- (i) that the journey was actually performed ;
- (ii) that it was necessary, and authorised by general or special orders ;
- (iii) that it was performed as expeditiously as possible ;
- (iv) that no bill has been submitted for it before ;
- (v) that the amount drawn is correct ; and
- (vi) that the expenditure is covered by necessary appropriation.

553. Duties imposed on the Controlling Officer.—Now, it is evident that points (i) to (iii) are the most important and that the Audit Officer, not being on the spot, has no opportunity of checking these points adequately. The duty of applying these checks is, therefore, imposed upon the controlling officer who is either the Collector or a superior departmental officer.

554. The choosing of the controlling officer in respect of each office is a matter of importance, and local Governments realise the necessity of choosing as a controlling officer that responsible authority which is in the best position to exercise a proper check under these three heads.

555. Point (v) involves a check of distances in those cases in which the travelling allowance depends upon the distance travelled. The duty of checking distances is now entrusted to the controlling officers. Experience has proved that, even if the Audit Officers take the greatest pains, their check in this respect is often unsatisfactory, because it is impossible for them to know the actual distance of a journey, say, between two small villages in a district many miles away from head-quarters. The controlling officers are better able to check such distances.

556. *Duties imposed on the Audit Officer.*—Audit Officers, however, when checking the manner in which controlling officers perform their duties in this regard (*see* paragraph 560 below) should apply test checks to satisfy themselves that the controlling officers check distances.

557. The amount of railway fare and of steamer fare is checked in the Audit office with the tables of fares.

558. Check No. (iv) mentioned in paragraph 552,—to see that the bill is not drawn twice for the same journey,—is applied to all the bills of gazetted officers by means of a register in which the bills drawn by the same officer are entered in sufficient detail to render this check possible. For similar check of travelling allowance bills of non-gazetted Government servants see the last sentence of paragraph 560 below.

559. Check No. (vi).—to see that the expenditure is covered by necessary appropriation,—is conducted by means of separate registers as in the case of other classes of expenditure.

560. *Higher Audit Check.*—It is an important function of the Audit Officer to see that the scrutiny entrusted to controlling officers is exercised by them properly. This can be carried out partly during local inspection (*see* Chapter 35), and partly in the Audit office by bringing together the bills that were passed, say, during a period of six months or so, and carefully scrutinising them. A similar check may also be conducted in respect of the travelling allowance bills of Government servants who countersign their own bills. It will be interesting to quote an instance exhibiting the result of one such test check, of the travelling allowance of an officer who countersigned his own bills. The journeys that he made during a period of 12 months were listed and reported to the local Government, with the result that the officer was fined Rs. 500, deprived of the privilege of countersigning his own bills, and warned that a recurrence of such a misuse of his privilege would entail his dismissal. Such checks may also bring to light whether heads of offices so scrutinise the travelling allowance bills of non-gazetted Government servants as to guard against double claims for the same journey.

561. It has been explained in paragraph 537 above that the powers of local Governments to frame rules governing the grant of travelling allowance are subject to the condition that such travelling allowance shall not on the whole be a source of profit to the recipient. This condition being a canon of financial propriety, the Audit Department is responsible for watching that it is not infringed. The principles of this canon cannot, however, be applied to individual journeys of officers, as the expenses vary so enormously in different areas of a province and under different conditions in the same area that it is impossible to frame formulæ for determining the actual expenses incurred by each officer in respect of each journey. Travelling usually necessitates the permanent upkeep of means of conveyance for the Government servant, and for his baggage and servants as well, and in such a case it would be impossible to distribute over a series of journeys this permanent expenditure. An attempt should, therefore, be made, to scrutinise the general rules framed by the local Government to see that the allowances are restricted to such rates as may meet the expenditure which an officer has generally to incur on his journeys as a whole.

CHAPTER 28.

Pensions.

562. Essential points of Audit.—The essential points of the audit of pensions are to ensure :—

- (a) that the retiring officer is entitled to the pension he claims ;
- (b) that a pensioner is entitled to the pension he draws.

Both these points are checked in the Audit Office. In a combined Audit and Accounts Office, the audit under point (a) necessarily precedes, and that under (b) follows, the sanctioning of the pension. Where Accounts are separated from Audit, the report under (a) is prepared in the Accounts Office and is test-checked in audit. The procedure described in this chapter applies in a combined office.

563. Preliminary verification.—The title to the pension claimed by a non-gazetted Government servant is checked in the following manner. Shortly before a non-gazetted Government servant is due to retire he must submit to the authority, whose duty it would be fill up his post, his service-book and a statement of his services. It is then the duty of that officer to check this record as far as possible and to submit it to the Audit Officer for comparison with the records in his office. The main source of comparison in the Audit Office is the annual list of pensionable establishments which has to be submitted by every Head of an office to the Audit Office, where it is checked with the sanctions recorded in the audit register. This preliminary verification is made in order to facilitate the check of the formal application which has to be made when a Government servant retires, so that there may be as little delay as possible in granting the pension, and to ensure that no one inadvertently retires before he is entitled to a pension.

564. It is unnecessary for a gazetted officer to submit any preliminary statement for verification, or any detailed list of his service with his formal application inasmuch as full details are entered in the History of Services, for the preparation of which the Audit office is responsible.

565. A brief summary is given below of the main features of the rules relating to pension, omitting all particulars regarding the calculation of service qualifying for pension, of the amount of pension admissible, etc. The rules which are summarised are those which are applicable to Central Government servants and members of All-India Services. The Civil Services (Governors' Provinces) Delegation Rules give power to local Governments to frame their own rules on these subjects, which require to be studied separately.

- (a) For service to qualify for pension, the essential conditions are that the service must be under, and paid by, Government, and a Government servant must hold substantively a permanent post. It is open to a local Government to rule when creating a new post or establishment that service in such a post or establishment shall not be pensionable service.
- (b) Qualifying service may be either "superior" or "inferior." Subordinate service, unless classed as inferior by general or special orders of Government, is superior service.
- (c) The following constitute an interruption of service :—
- (i) Resignation of Government service otherwise than in circumstances qualifying the resigning Government servant for a pension or gratuity.
 - (ii) Removal from Government service for inefficiency not due to age, for misconduct or for insolvency.
 - (iii) Removal from Government service for failure to pass a prescribed examination.
 - (iv) Absence from duty otherwise than on authorised leave.

An interruption of service entails the forfeiture of all past service unless the competent authority directs otherwise.

- (d) The amount of pension admissible is calculated on the average pay earned by a Government servant during his last three years of service.
- (e) Government servants who have held certain special posts which are termed lower grade posts or higher grade posts, and have shown such special energy and efficiency as to deserve the concession, are entitled to special additional pensions at specified rates.

566. Qualification for Pension or Gratuity.—A Superannuation Pension is granted to a Government servant in Superior service entitled or compelled by rule to retire at a particular age. A Retiring Pension is granted after the completion of qualifying Superior service for a prescribed number of years. In certain circumstances, Government servants not entitled to Superannuation or Retiring Pensions may be granted, after rendering qualifying service of less than a prescribed number of years (the number differing in different cases) a gratuity ordinarily not exceeding one month's emoluments for each completed year of service ; or a pension instead of a gratuity if the length of service rendered justifies it. A Government servant entitled to pension may not take a gratuity instead of pension.

567. Anticipatory Pensions.—When a Government servant whose pension is payable in India retires before the necessary enquiries preli-

minary to the settlement of the amount of his pension are completed, the Audit Officer may, on receipt of a declaration to the effect that the Government servant undertakes to refund any excess which may be found in his pension on completion of the necessary enquiries, sanction the immediate disbursement of the pension at a rate not exceeding the minimum to which he believes the Government servant likely to be entitled after the most careful summary investigation that he can make without delay. The pension thus sanctioned is called an anticipatory pension.

568. In similar cases where a Government servant's pension will be payable in England, the Audit Officer, after careful summary investigation, reports to the authority who will sanction the pension the minimum amount to which the Government servant is likely to be entitled. This report is forwarded at once to the High Commissioner for India by the authority by which the pension will in due course be sanctioned. The High Commissioner sanctions the immediate disbursement of the anticipatory pension after obtaining a declaration similar to that mentioned in the preceding paragraph.

569. Audit has to see that no undue delay occurs in the final settlement of these cases.

570. *Authority for disbursement of pension.*—No pension can be sanctioned (except in the case of certain classes of Police subordinates) until the Audit Office has certified that the amount which it is proposed to sanction is permissible under rule. A copy of the order of sanction is then forwarded to the Audit Officer who verified the service so that he may check the correctness of the pension sanctioned.

571. If the pension is payable in India, the Audit Officer then issues duplicate pension payment orders, one to the pensioner himself and the other to the Treasury Officer in charge of the treasury at which the pensioner wishes to take payment.

572. If the pensioner wishes to draw his pension at the Home Treasury, the Audit Officer issues a last pay certificate and forwards a duplicate copy of it to the High Commissioner for India, together with a copy of the first page of the application for pension and of the orders of the local Government or other authority granting the pension.

573. Similarly the pension of a pensioner residing in any British Dominion, Colony or Protectorate, may be paid there. In this case the Audit Officer issues a Colonial (pension payment) warrant in triplicate. The original bearing the payee's signature is forwarded to the Colonial authority concerned, the duplicate to the High Commissioner for India, and the triplicate is made over to the payee.

574. The distribution of the pensionary charges under paragraph 576 is also made at the same time, and the Audit Officer takes steps to

make the necessary adjustment of charges between the different Governments in the manner laid down in paragraphs 578 and 579.

575. Allocation of pensionary charges.—Prior to the introduction of the Reforms of 1919, the pensionary charges of Government servants of all civil departments were charged to the accounts of the province in which such charges were disbursed, even if the pensions had been earned by service in other provinces or under the Government of India.

576. Under the Reforms, each province constitutes a separate Government, entirely responsible for its own finances, and consequently it has become necessary for each Government to recover from any other Government the payments which it may make on its behalf in respect of pensions earned by service under the latter.

577. Pensions sanctioned before 1st April 1921 will, however, be treated as a charge to the Government which had to bear it under the old rules, that is to say these will be debited to the Central Government if paid outside India and to the Government by which the payment is made if the payment is made in India.

578. In respect of Government servants who have served under more than one Government, the distribution of the pensions sanctioned after 1st April 1921, is determined under the following rules, approved by the Secretary of State in Council :—

Pensions sanctioned on or after 1st April 1921 :—

(a) *Payments outside India :—*

- (i) If an officer has served under one Government only, that Government will bear the charge.
- (ii) If he has served under more than one Government, the pension will be divided among the several Governments in proportion to the length of service under each.

(b) *Payments made in India ;—*

- (i) If an officer has served under one Government only, that Government will bear the pension drawn by him on retirement even though he draws it from another Government. Pensions drawn in provinces by servants of the Central Government will be debited to Central heads direct.
- (ii) If an officer has served under more than one Government (other than the Government of India) before retiring his pension will be borne by the Government under which he was serving at the date of retirement.
- (iii) If an officer has served both under the Central Government and under one or more other Governments before

retiring, the Central Government will be debited with a proportionate share of the pension determined by mere length of service. The balance will be borne by the Government under which he was serving at the date of retirement, or, if that be the Government of India, by the Government under which he was serving prior to his transfer to the Government of India.

(c) *Special additional pensions, whether paid in India or outside India:—*

Special additional pensions will be treated as separate items and distributed according to length of service between the different Governments under which the service by which the additional pension was earned was rendered.

(d) Civil servants who were placed on military duty during the war shall be deemed to have been serving under the Government of India for the period of that duty.

579. When an adjustment has to be made under these rules between two or more Governments, it may be made either by the payment in lump or in instalments of the commuted value of a pension, or in accordance with any special arrangements which may be concerted between the Governments concerned.

580. *Method of pension payment and identification of pensioner.*—Pensions payable in India are disbursed at treasuries, and every payment has to be entered by the Treasury Officer on both copies of the pension payment order. At the same time he takes the receipt from the pensioner and checks the identifying marks and the signature, or the thumb impression, with those recorded on the original order. Some pensioners are permitted to draw their pensions without personal application, but in such cases they have to forward life certificates with their receipts and also have to attend once a year for identification. This identification of the person drawing the pension with the person to whom the pension was granted is, of course, the essential audit check; and here again the Audit Office has to rely upon another authority for the due performance of the check.

581. *Audit of pension payments in the Audit Office.*—The audit of pension payments in the Audit office is conducted only in respect of a small percentage,—approximately one-sixth of the vouchers,—the selection of those to be checked being made by a Gazetted Officer. The pension vouchers of each treasury are thus audited for some 2 months in each year. This audit consists in seeing that the amount paid is not greater than the amount sanctioned. One month's vouchers of each treasury are also audited in detail at the annual inspection of treasuries. This local check consists not only of the comparison of the amount paid

with the amount due but also of a general review of the treasury records to see that they do not indicate any double payment of the pension for the same month.

582. *Commutation of pensions.*—A Government servant who is a member of one of certain specified Services or holds one of certain specified posts is entitled to commute for a lump payment any portion, not exceeding one half, of any pension which has been or may be granted to him under the civil rules.

583. Other Government servants may also be permitted by any sanctioning authority, on such conditions as it may think fit to impose, to commute for a lump payment any portion, not exceeding one half, of any pension which has been or is about to be granted to them under the civil rules.

584. One of the conditions for granting commutation is the production by the applicant of a certificate, from such medical authority as may be prescribed for the purpose by the sanctioning authority, to the effect that his bodily health and prospects of duration of life are such as to justify commutation. When commutation is sanctioned the pensioner is informed accordingly and is given the option of withdrawing his application within one week after being so informed.* If he does not withdraw his application within that period, the commutation of his pension becomes absolute and payment of the lump sum is made forthwith, payment of the commute portion of the pension ceasing from the date of payment of the commuted value.

* NOTE.—At the time of writing, the rules on this subject are under revision.

CHAPTER 29.

Contingent Expenditure.

585. *The classes of expenditure falling under Contingencies.*—Under this heading civil accounts group a number of payments of the most varying description. In fact under this category are included all payments made by Civil officers to people not in Government service, if they do not fall under the heads Deposits, Remittance Transfer Receipts, or Supply Bills. It is, then, a little startling at first sight to find the general rule laid down that, subject to any orders of the local Government or controlling authority, an officer is allowed to draw money from the treasury for contingent expenses incurred on the public service within the amount of the allotment placed at his disposal. For ordinary expenses previous sanction is not required. It is for the local Government to define the nature and limit of charges :—

- (a) which may be incurred without previous sanction ; and
- (b) which require the previous sanction—
 - (i) of any controlling officer,
 - (ii) of the local Government itself.

There is, however, one important proviso, namely that fixed allowances for contingent expenses which are drawn regularly, irrespective of the actual expenditure incurred in any month, are not subject to any of the rules relating to contingent expenditure.

586. The consequence is that a very large number of rules have had to be promulgated by the Government of India and by each local Government limiting the power of officers to incur contingent expenditure. The former apply to the departments and administrations under the control of the Government of India, and are contained in the Civil Account Code or in other Codes issued under the authority of the Government of India. The latter apply only to the departments of the local Government concerned, and are contained in their financial rules which are embodied either in the local Government's Codes or in departmental Manuals. The important local rules which have not been embodied in any Codes are usually brought together in the Manuals relating to the work of the various sections of Audit Offices.

587. *Classification of contingent charges proper.*—The actual classification of Contingent Charges is determined by the orders of each local Government, and, as a result, it differs in different Provinces. It will be found, however, on consideration of the dominant condition governing

*NOTE.—The redrafting of the relevant Chapter of the Audit Code is now under consideration.

the particular expenditure, that all Contingencies fall into one or more of the following five classes :—

- (a) Contingent charges which cannot be incurred without the special sanction in each case of superior authority. These are termed Special Contingencies.
- (b) Contingent charges met from a lump sum grant placed at the disposal of a disbursing officer for expenditure, at his discretion, on certain specified objects. Such charges are known as Contract Contingencies.
- (c) Contingent charges regulated in amount by scales laid down by the local Government. Such charges may be designated Scale-regulated Contingencies.
- (d) Contingent charges which, though they may be incurred without special sanction, require the approval and countersignature of superior authority before they can be admitted as legitimate expenditure against public funds. Countersignature is ordinarily obtained after the bills are paid, but in rare cases it is necessary before payment. Such charges are known as Countersigned Contingencies.
- (e) Contingent charges which require neither special sanction nor countersignature, but may be incurred by the disbursing officer on his own authority subject to the necessity of accounting for them. Such Contingencies may be termed Fully-vouched Contingencies, though in actual practice the Auditor General dispenses with the production to audit of vouchers of less than a prescribed amount.

588. These five classes of Contingencies are not mutually exclusive. There may be cases in which Special Contingencies are regulated by scale ; or in which a bill for Scale-regulated Contingencies requires countersignature. Whenever a contingent bill falls within two or more classes, the methods of audit summarised in this Chapter for each of those classes should, as far as possible, be applied to it.

589. *Permanent advance.*—Nearly all drawing officers have permanent advances, that is, a sum of money placed at their disposal to meet immediate needs. Such permanent advances correspond with an ordinary person's pocket-money. The amount of a permanent advance is reckoned at the lowest possible figure calculated to suffice for meeting petty charges and those emergent charges which cannot be foreseen. Whenever the advance requires to be replenished the disbursing officer has to submit bills to the treasury indicating the nature of the expenditure which has depleted the advance.

✓ **590** Every drawing officer should exercise the same vigilance in respect of petty contingent expenses as a person of ordinary prudence

would exercise in spending his own money. He is further responsible for seeing that the rules regarding the preparation of vouchers are observed, that the money is either required for immediate disbursement or has already been paid from the permanent advance, that the expenditure is within the available appropriation, that steps are taken to obtain additional appropriation if the original appropriation has been exceeded or is likely to be exceeded, and that in the case of contract contingencies the proposed expenditure does not cause any excess over the contract grant.

591. *Duties of the Controlling authority.*—The main check over contingent expenditure is performed by the controlling authorities. It is their duty to see that the charges drawn in a contingent bill are of obvious necessity, and are at fair and reasonable rates; that previous sanction for any item requiring it is attached; that the requisite vouchers are all received and are in order, and that the calculations are correct; and specially that the expenditure has not exceeded, and is not likely to exceed, the appropriation for the purpose. If expenditure be progressing too rapidly, it rests with them to communicate with the disbursing officers, and insist on its being checked. When however, as is often the case with fully vouched contingencies, the charges do not come under the scrutiny of the controlling authority, these duties fall largely on the drawing officers themselves; and the responsibility of the audit officer is therefore proportionately greater, as will be seen in paragraph 593.

592. As to the degree of responsibility imposed upon controlling authorities under these rules, the following quotation may be made from a letter by an Accountant General:

“In the case of departments, such as Jails, Police, and Medical, the contingent expenditure includes very large sums under Supplies and Services for feeding of prisoners and patients and the supply of rations, clothing, arms and accoutrements to very many thousands of policemen, and the heads of these departments have practically got subsidiary Audit Establishments under them to enable them to exercise a detailed control over this very large expenditure. Countersignature in the case of these departments at any rate does imply a very large amount of detailed check of which the Audit office is thereby relieved.”

593. *General Nature of Contingent Audit.*—Audit officers have, however, their share of the responsibility, which varies greatly with the different classes of Contingency. It is least of all in the case of Special Contingencies; and very little greater in respect of Scale-regulated and Contract Contingencies. Over Countersigned Contingencies, the major portion of the control is exercised by the countersigning authorities; but audit has certain definite responsibilities. The responsibility of audit is greatest of all in the case of Fully-vouched Contingencies.

594. The Audit Office is not required to take up for audit more than a percentage of the contingent bills of lower values; but, for all classes

of contingent charges alike, the Accountant General has the following minimum responsibilities in respect of all bills taken up for audit. He must see—

- (a) that each class of expenditure—
 - (i) is a proper charge against the grant concerned,
 - (ii) has received such sanction as is necessary, and
 - (iii) is covered by appropriation ;
- (b) that such vouchers as are required by audit have been submitted ;
- (c) that any certificates which are necessary have been provided ;
and
- (d) that no Canon of Financial Propriety is infringed.

The progressive expenditure, as shown on the face of contingent bills, must be periodically agreed with the figures recorded in the relevant contingent audit register, if any.

595. The principal duties of audit in respect of these charges are explained in the following paragraphs.

596. *Special contingencies.*—Audit is to watch and record the expenditure against the necessary sanction of proper authority.

597. *Contract contingencies.*—No details of the expenditure, beyond such totals of the various contract items as may be required for purposes of classification, are furnished in the bills. Unless the terms of the contract provide to the contrary, no sub-vouchers are submitted. Scrutiny applied in audit is generally confined to the four main points specified in paragraph 594 above.

598. *Scale-regulated contingencies.*—Contingencies regulated by scale include such charges as grants-in-aid, rewards for destruction of wild animals, *batta* to witnesses and the like. The authority prescribing the scale lays down the conditions precedent to its application in each case making it clear whether special sanction of superior authority is necessary, whether bills must be countersigned before or after payment, and what certificates should support the bills. In accordance with the conditions so laid down, charges regulated by scale may become Special, Contract, Countersigned or Fully-vouched Contingencies, and should be audited under the rules applicable to the particular class within which they fall. In addition, the Accountant General should satisfy himself that the charges incurred are in accordance with the scale which governs them.

599. *Countersigned Contingencies.*—In this case (unless, as occasionally happens, the amount is drawn on a detailed bill on which countersignature has already been made), the money is actually drawn on an abstract bill and the approval of the superior authority, as indicated by

its countersignature, is subsequently received by audit on the monthly detailed countersigned bill. Both the abstract and the detailed monthly bills require scrutiny in audit. The abstract bill is scrutinised to see that it is signed by an officer authorised to sign such bills, that the summations are correct, and that there is nothing extraordinary or unusual in it. The amount of the bill is held under technical objection until the receipt of the detailed monthly bill duly countersigned together with the necessary sub-vouchers. The monthly detailed bill is checked carefully on the principles laid down in para. 594, with a further check to see that it is duly countersigned, and that the charges included in it cover the amounts drawn from the treasury on abstract bills.

600. Bills countersigned before payment and fully-vouched contingencies.—The audit of these bills is conducted on the lines explained in paragraph 594 above. The scrutiny of fully-vouched contingencies should be further extended to see—

- (i) that the rates are apparently not extravagant ;
- (ii) that the flow of expenditure is not too rapid ;
- (iii) that, if the expenditure in the month of March is unusually large, it does not lead to irregularities.

601. Grants-in-aid.—Among the charges falling under Scale-regulated Contingencies, mention has been made of Grants-in-aid. These items of expenditure, sometimes of large sums, are final payments of the nature of a donation or subscription to a corporate body, institution or other authority. These grantees may be either independent of Government or under the control of Government. Payments to the grantees of the latter class are scrutinised in audit in the light of the general principles described in this Manual. The following paragraphs apply generally to the payments made to grantees who are independent of Government.

602. Grants-in-aid may be either unconditional or conditional. Audit is applied at two stages as explained below :—

- ✓ (i) Audit of sanctions to grants.—Whether grants are conditional or not, they are subjected to general scrutiny as explained in Chapter 14 above. When a grant is sanctioned subject to specified conditions, audit has to see in addition that such conditions have been duly fulfilled, and also :—
 - (a) that the grant is spent upon the object within a reasonable time, and
 - (b) that any portion of the amount which is not ultimately required for expenditure upon that object is duly surrendered.
- (ii) Audit of payments to the grantees.—The audit of these payment vouchers is confined to the general scrutiny applied to all treasury vouchers.

603. *Expenditure by grantees from grants.*—Audit is not concerned with the manner in which the grant is utilised by the grantee where no conditions are imposed. Where, however, conditions are attached to the grant, audit should see that such conditions are generally fulfilled, either in the course of auditing the expenditure if it comes directly under its audit, or by reference to the reports of the Examiner of Local Fund Accounts if such expenditure comes under his audit. In cases not falling under the above, the statements and certificates of the administrative government authorities may be accepted in audit ; but a test check should, where possible, be applied.

604. *Higher Audit.*—It is the duty of audit to challenge any expenditure, which appears to contravene provisions of the Canons of Financial Propriety. In the case of contingencies, this applies especially to extravagant rates, prices, or amounts in charge not otherwise objectionable in character. The auditor should refer for orders any item of expenditure which is positively objectionable or even of doubtful propriety.

605. *Relation between Controlling and Audit authorities.*—A comparison of the relative responsibilities of the controlling officer and of the Audit Officer in regard to contingencies shows that the duties of the former are more onerous than those of the latter ; it is more difficult to decide whether expenditure is necessary than whether it is unusual, and whether rates are reasonable than whether they are apparently extravagant. At the same time the Audit Officer also has to determine as far as possible whether the controlling officer is doing his work adequately, and this is, perhaps, his most important duty in respect of contingent expenditure. Audit in India would probably benefit if more attention were paid to the scrutiny of contingent expenditure and less to the minute examination of establishment and travelling allowance bills. Gazetted Officers should devote particular care to their review of bills of Rs. 3,000 or over and should also scrutinise some of the smaller bills.

606. *Registers used in audit.*—Apart from the separate registers maintained in audit for record of abstract bills pending their clearance on receipt of detailed bills, and for the record of special and periodical charges, no separate registers are required for use in connection with Contingent audit except those required for the conduct of Appropriation audit. This subject has been examined in another Chapter.

CHAPTER 30.

Expenditure on Works.

I. GENERAL PRINCIPLES.

607. Volume and importance of Works expenditure.—The extreme importance of this class of expenditure can be gauged from the fact that the total expenditure in India in 1927-28 recorded under the major heads relating to Civil Works, Irrigation, Railways, Forests, Posts and Telegraphs, and other Works outlay, amounted to nearly 100 crores of rupees, and the larger portion of such expenditure was on Works. It will not be possible, then, to do more than touch the fringe of the subject in this Manual.

608. Need for preparation of estimates before sanction.—There are always more demands on the public purse than can possibly be met, and therefore the advantages to be derived from compliance with each demand have to be weighed against the probable cost in order to select those on which Government money can be used to the best advantage. Now, the direct cost of a new establishment can be calculated accurately, its indirect cost with reasonable accuracy, and the cost price of anything to be charged as contingent expenditure will be known within reasonable limits at the time the purchase is sanctioned. But a building for, say, a hospital can be erected for one lakh, while 40 lakhs can also be spent on its erection. Government may be quite willing to spare one lakh, but extremely reluctant to spend 40 lakhs. Thus the Central Public Works Department Code, First Edition, states in paragraph 58 that “ it is a fundamental rule that no work shall be commenced or liability incurred in connection with it until a properly detailed design and estimate have been sanctioned. ”

609. The efforts of the Audit Department to enforce the observance of the rule quoted in the last paragraph are only partially effective. Each Principal Auditor can watch the measure of his success as regard to the works expenditure, under his audit by comparing from year to year the increase or decrease of the percentage of amounts placed under objection for non-observance of this rule to the total works expenditure of each year. The results of such comparisons will show that much steady work on these lines yet remains to be done by Audit.

610. Basic Rules applicable to Works executed by the Public Works Department.—Each local Government frames its own rules governing the execution of works by the Public Works Department. The Central Government have framed the following important rules governing Central Works executed by the Public Works Department.

611. There are four main stages in the project for a Central Work, namely, administrative approval, expenditure sanction, technical sanction, and the allotment or re-appropriation of funds.

612. These stages are explained below briefly.

- (i) *Administrative Approval*.—A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and finally to be approved by, the authorities for whom the work is to be erected. This approval is called 'administrative approval' and is, in effect, an order to the Public Works Department to execute certain special works, at a cost approximately stated, to meet the administrative needs of the department requiring the work. In other words, the administrative experts have to say—this work meets our requirements, and we do not consider that the cost, as shown in a preliminary estimate accompanying the design submitted for administrative sanction, will be extravagant.
- (ii) *Expenditure Sanction*.—This means that the expenditure on the proposed work is sanctioned by the competent authority. Expenditure on works beyond certain limits requires the previous sanction of the Finance Department, while in other cases the act of allotment or re-appropriation of funds operates as sanction to the expenditure.
- (iii) *Technical Sanction*.—Except for petty works, petty repairs and repair works for which lump provision has been sanctioned, a properly detailed estimate must be prepared for each work to be sanctioned by the competent authority. This sanction is known as the technical sanction to the estimate, and amounts to no more than a guarantee that the proposals are structurally sound and that the estimates are accurately calculated and based on adequate data. Such sanction is accorded by the Public Works Department and should, except in special cases, be obtained before the construction of the work is commenced. If, in working out the detailed estimates or during the construction of the work, it is found necessary to make any important deviation from the design to which administrative sanction has been obtained, such sanction has also to be obtained to the deviation.
- (iv) *Allotment and re-appropriation*.—These represent the provision of a particular sum of money to meet expenditure on a specified object; such provision is operative only for the official year for which it is made.

613. *Supplementary and revised estimates*.—Even with the greatest thoughtfulness and accuracy it is not always possible to foresee every

thing that will be required or to frame an estimate which will not be exceeded. Therefore we have the rules :—“ Any development of a project thought necessary while a work is in progress, which is not fairly contingent on the proper execution of the work as first sanctioned, must be covered by a supplementary estimate, accompanied by a full report of the circumstances which render it necessary”. (Central Public Works Department Code, paragraph 96.) “ A revised estimate must be submitted when the sanctioned estimate is likely to be exceeded by more than 5 per cent.” (Central Public Works Department Code, paragraph 69.)

614. But the extra expenditure which has to be covered by a supplementary or revised estimate is often incurred before sanction can be obtained to these estimates. This nullifies the value of such estimates and, therefore, we have the rule :—“ When any excess over a sanctioned estimate is foreseen, and there is likely to be unavoidable delay in the preparation of a revised estimate, an immediate report of the circumstances should be made to the authority whose sanction will ultimately be required.....” (Central Public Works Department Code, paragraph 97). This rule was first introduced at the instance of the Secretary of State who devoted great attention to this question of excesses over estimates ; and its importance is manifest.

615. When excesses occur at such an advanced period in the construction of a work as to render the submission of a revised estimate purposeless, the excesses, if beyond the power of the Divisional Officer to pass, are explained in the Completion Statement or Detailed Completion Report which is mentioned in the following paragraph.

616. Finally, a consolidated Completion Statement is prepared monthly of completed works the actual expenditure on which is in excess of the sanctioned estimate by an amount which a Divisional Officer is empowered to pass. But, in respect of completed works on which the outlay has been recorded by sub-heads, a Detailed Completion Report for individual works is prepared, instead of a Completion Statement, in the following cases :—

- (i) when, if the work was sanctioned by higher authority, the total estimate has been exceeded by more than 5 per cent ; and
- (ii) when, if the work was sanctioned by the Divisional Officer, the total estimate has been exceeded by an amount greater than that which he is empowered to pass.

617. The consolidated Completion Statement shows for each work the estimated amount, the outlay, and the excess. In cases in which the Completion Statement is utilised instead of a revised estimate (*see* paragraph 615) the excess is set forth in sufficient detail to satisfy the authority whose sanction is necessary. The Detailed Completion Report

gives a comparison and explanation of differences between the quantity, rate and cost of the work executed and those entered in the estimate. The object of the Completion Statement or Detailed Completion Report is to enable the superior authorities to scrutinise the excess and to sanction it where it is reasonable.

618. *Audit of Works Expenditure.*—Works expenditure is incurred in the utilisation of materials and labour. Materials may be supplied from stores, or bought for the work, or provided by the contractor. Store accounts are examined in Chapters 18 and 31. Work may be carried out by daily labour, by piece-work (that is to say, work paid for at a fixed rate), or by contract. The last should be in writing and should contain stipulations as to the quantity and quality of work to be done, the time within which it is to be completed, the terms upon which the payments will be made, etc. Most contract works are carried out by petty contractors who cannot wait for payment on completion of work, and are therefore paid periodically according to work done up to date. Thus, whether payment is to be made for work on the basis of a contract or of piece-rates, prompt measurement is essential; and, of course, the accuracy of the recorded measurement of work done is the basis upon which rests the efficiency of the audit of works expenditure. The check by actual measurement is conducted entirely by the executive. It would be impossible for audit to take any part unless it had a staff of measurers in every division in India to make the original measurements, or a staff in each province to tour throughout it checking measurements. The sole check over these initial measurements is exercised by the Sub-Divisional or Divisional Officer, or by the Superintending Engineer, who verifies them either by making check measurements or by inspection. The expert knowledge of an experienced Engineer enables him in many cases to detect any very gross over-measurements or overpayments on inspection and comparison with the recorded expenditure on the work.

619. But executive authorities do not always realise the extreme importance of accurate measurement. There is always liable to be a rush of expenditure in March, the last month of the financial year, and cases have occurred in which payments have been made on measurement reports submitted by subordinates whose journals, in which they record work done day by day, indicate that, on the day on which the measurements were alleged to have been made, they were miles away from the site of the work. Such measurement reports have no value; and, if Audit detects such cases at inspections, prompt notice should be taken of them.

620. *Contracts.*—The purchase of stores, the execution of work, etc., are often done by contract. For this purpose Government enters into a contract, or effects an agreement in writing with the person or body

concerned. Such a document contains *inter alia* stipulations as to the quantity and price of stores to be supplied or work to be done and the time within which it is to be completed. As a general rule, such contracts should only be concluded after competitive tenders have first been invited in the most public manner possible.

621. The following general principles applicable to contracts involving expenditure from Central Revenues have been prescribed by the Governor General in Council for the guidance of authorities who have to enter into contracts or agreements:—

- (i) The terms of a contract must be precise and definite, and there must be no room for ambiguity or misconstruction therein.
- (ii) As far as possible, legal and financial advice should be taken in the drafting of contracts and before they are finally executed.
- (iii) Standard forms of contracts should be adopted wherever possible, the terms to be subject to adequate prior scrutiny.
- (iv) The terms of a contract once executed should not be materially varied without the previous consent of the competent financial authority.
- (v) No contract involving an uncertain or indefinite liability or any condition of an unusual character should be executed without the previous consent of the competent financial authority.
- (vi) Whenever practicable and advantageous, contracts should be placed only after tenders have been openly invited, and, in cases where the lowest tender is not accepted, reasons should be recorded.
- (vii) In selecting the tender to be accepted the financial status of the individuals and firms tendering must be taken into consideration in addition to all other relevant factors.
- (viii) Even in cases where a formal written contract is not made, no order for supplies, etc., should be placed without at the least a written agreement as to price.
- (ix) Provision must be made in contracts for safe-guarding Government property entrusted to a contractor.

622. Audit has power to examine contracts and to bring before the Public Accounts Committee any cases where competitive tenders have not been sought, or where high tenders have been accepted or where either irregularities in procedure have come to light.

II. ORDINARY WORKS EXPENDITURE.

623. Audit.—The audit of Public Works expenditure falls under three heads :—

- (a) audit in the central office ;
- (b) audit by the Divisional Accountant in the divisional office ;
and
- (c) test-audit at the annual inspection of the divisional office.

624. The audit of works expenditure in the central office is conducted mainly with reference to—

- (A) the sufficiency of the authority for incurring the expenditure ;
- (B) the accuracy of the classification of the charges against the works, persons, services and heads of accounts concerned ;
- (C) the proof of payment to the correct individual ; and
- (D) the canons of financial propriety ;

625. The basis upon which audit relies for exercising the first check (A) is the technical sanction to detailed estimates. For this purpose the sanctioning authorities communicate their sanctions to the Audit Office either individually or in a consolidated monthly statement. These are scrutinised as explained in Chapter 14 above and noted in the proper audit register. Unless, with the concurrence of the Auditor General, the Government concerned has specially desired this, the Audit Office is not required to see whether a work has received the necessary administrative approval, or whether the amount of the technical sanction does not exceed, without proper authority, the amount of the administrative approval. Next it should be seen that expenditure sanction has been accorded for each work for which technical sanction has been accorded, and that all special charges which, under the rules, require the sanction of an authority superior to the Divisional Officer are duly sanctioned by such authority. The expenditure incurred on each work, month by month, is then posted against the sanction from the monthly accounts received from the division, and a comparison is made between the expenditure sanctioned and the expenditure actually incurred. Expenditure not covered by, and in excess of, sanction is placed under objection until the necessary sanction is accorded or the expenditure under objection is otherwise regularised by recovery, etc.

626. The second check (B) consists in seeing (i) that, if the charge is debitable to the personal account of a contractor, employé or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account so as to watch the recovery of the amount due ; (ii) that the charge is classified to the proper heads of account ; and (iii) that the expenditure is incurred in pursuance of the precise objects for which the detailed estimate for the work was intended

to provide. The last item cannot be properly checked in the central office as the detailed estimates which define the objects on which expenditure is to be incurred are not available there. Charges are therefore examined generally to see that there is no apparent misclassification; but the detailed check with estimates is left to the Divisional Accountant.

627. The personal account of the contractor is an important document. It is credited with the value of work done or supplies made by the contractor and debited with the amount paid or stores supplied to him. Extracts of the ledger accounts are submitted to audit with the monthly accounts. These facilitate the exercise of the first item of the check mentioned above. Further they ensure that the ledgers maintained in the divisions are kept up-to-date, and enable obvious errors to be rectified promptly. The audit of these ledger accounts is not complete until they are test-checked at local inspections.

628. The third check (C) consists mainly in seeing that a properly receipted voucher is sent for every payment. The responsibility for making payments to the person entitled to receive payment is left to the paying officer as in the case of almost all payments not made by the Audit Office direct.

629. The application of the canons of financial propriety has already been explained in detail, in Chapter 17.

630. Besides these four checks, each voucher for payment on running account is compared with the last bill to see that up-to-date and other figures which are dependent on the entries in that bill are correct. The arithmetical calculations of the bills are also checked to the following extent:—

- (i) Final running account bills in yellow form cent. per cent.
- (ii) Other vouchers 10 per cent.

As the arithmetical calculations of the vouchers are checked completely in the divisional office under the supervision of the Divisional Accountant, a percentage check in the central office has been considered to be sufficient.

631. *The Divisional Accountant and his functions.*—A trained Divisional Accountant is posted by the Accountant General to each divisional office to assist the Divisional Officer in the discharge of his responsibilities in respect of the accounts of the division. The functions of the Divisional Accountant are three-fold:—

- (i) as accountant, — the compiler of the accounts of the division in accordance with the prescribed rules and from the data furnished to him;

- (ii) as primary auditor,— the representative of the Audit Department, charged with the responsibility of applying certain preliminary checks to the initial accounts, vouchers, etc.;
- (iii) as financial assistant,— the general assistant and adviser to the Divisional Officer in all matters relating to the accounts and budget estimates, or to the operation of financial rules generally.

632. The Divisional Accountant is expected to see that the rules and orders in force are observed in respect of all the transactions of the division. If he considers that any transaction or order affecting receipts or expenditure is such as would be challenged by the Accountant General if the primary audit entrusted to the Accountant were applied by the former, it is his duty to bring this fact to the notice of the Divisional Officer with a statement of his reasons, and to obtain the orders of that officer. It will then be his duty to comply with the orders of the Divisional Officer; but if he has been overruled and is not satisfied with the decision he should at the same time make a brief note of the case in the Register of Divisional Accountant's Audit Objections, and lay the register before the Divisional Officer, so that the latter may have an opportunity either of accepting the Divisional Accountant's advice on reconsideration and ordering action accordingly, or of recording, for the information of the Accountant General, his reasons for disregarding that advice. An objection recorded in this register is not considered as finally cleared until it has been reviewed by the Accountant General.

633. The Divisional Accountant brings to the Divisional Officer's notice all instances in which subordinate officers exceed the financial limitations placed on their powers by the Divisional Officer or a higher authority. He may further be required by the Divisional Officer to undertake, on his behalf, such other scrutiny of the accounts of the receipts and disbursements of subordinate officers, falling within the Divisional Officer's own powers of sanction, as the latter may consider necessary. He is further expected to inspect the accounts records of sub-divisional offices so as to check a percentage of the initial accounts and to bring defects to the notice of the Divisional Officer. The results of this inspection are placed on record for the inspection of the Accountant General, and any serious financial irregularities are reported at once to the Audit Office.

634. As a primary auditor, the Divisional Accountant is responsible for examining the accounts returns of Sub-divisional Officers to see :—

- (i) that they have been received in a complete state ;
- (ii) that all sums receivable are duly realised, and on realisation credited to the proper head of account, and also to the proper personal account, if any ;

- (iii) that the charges are covered by sanctions and appropriations, and are supported by complete vouchers setting forth the claims and the acknowledgments of the payees legally entitled to receive the sums paid ;
- (iv) that all vouchers and accounts are arithmetically correct ;
- (v) that they are in all respects properly prepared in accordance with rule ;
- (vi) that all charges are correctly classified, those which are debit-able to the personal account of a contractor, employé or other individual being recorded as such in a prescribed account ; and
- (vii) that on the basis of rates sanctioned by competent authorities and of facts (as to quantities of work done, supplies made, etc., or services rendered) certified by responsible officers, the claims admitted for payment are valid and in order. It is not necessary that the Divisional Accountant should check personally the arithmetical accuracy of all vouchers and accounts, but he is responsible that a cent. per cent. check is exercised efficiently under his supervision.

635. It is one of the functions of the Divisional Accountant to see that expenditure which is within the competence of the Divisional Officer to sanction or regularise is not incurred as a matter of routine under the orders of subordinate disbursing officers without his knowledge.

636. The Divisional Accountant conducts the detailed audit of muster rolls, and petty vouchers which are not submitted to the Audit Office, and of all accounts of stores.

637. He checks the works expenditure with the estimates to ensure that the charges incurred are in pursuance of the objects for which the estimate was intended to provide. In the case of works the expenditure of which is recorded by sub-heads (*that is*, items of work such as brickwork, etc.) the Divisional Accountant is responsible for checking the expenditure on each sub-head with the estimated quantity of work to be done, the sanctioned rate, and the total sanctioned cost, so as to bring to notice all deviations from the sanctioned estimate.

638. Local Inspection.—The third heading under which audit is classified in paragraph 623 concerns the procedure under which the audit conducted in the central office is supplemented by the local inspection of divisional offices. This duty is explained in Chapter 35. The audit of Public Works Stores is explained in Chapters 18 and 31.

III. WORKS RECEIPTS.

639. Audit of Receipts.—The preceding paragraphs deal with the audit of expenditure. As regards receipts, much (as for example the

Irrigation Revenue) is realised by the Civil authorities and adjusted through the accounts. In such cases, the ordinary principles regarding the audit of receipts are applicable: See Chapter 12. Of the receipts realised direct by Public Works Officers, the most important are the rents of residential buildings and other services, and it is the duty of Audit to see, in respect of these, (a) that the standard rents are correctly determined in accordance with rules 45A and 45B of the Fundamental Rules, (b) that the rent recoverable from each tenant is correctly calculated, and (c) that the rents due are realised.

640. In exercising the first of these checks the Audit Officer checks the capital cost and sees that the allowance for maintenance and repairs is according to the scale fixed by the local Government, and is reasonable. In regard to the second check it has to be seen that the rent assessed is either the standard rent or 10 per cent. of the occupant's emoluments, whichever is less. In cases in which the 10 per cent. limit has the effect of lowering the rent realised for the building appreciably below the standard rent, the Audit Officer has to satisfy himself that the scale of accommodation supplied does not exceed that which is appropriate to the status of the occupant.

641. In some provinces the accounts of rents are not submitted to the Audit Office. In such cases the second and third checks are left to the Divisional Accountant, and a test check is exercised at the time of the annual inspection of the division. The first check is invariably conducted in the Audit Office.

IV. GENERAL PRINCIPLES IN REGARD TO LARGE CONSTRUCTION PROJECTS.

642. *Accounting principles.*—The accounting rules set forth in the Public Works Account Code are not intended to cover the requirements of large construction projects. The form of the accounts, whether direct or *pro forma*, which are to be maintained for these projects (other than Railways, for which separate rules exist) must be governed by four main considerations:—

- (i) The form of the project estimate;
- (ii) The requirements of the Engineer-in-charge to enable him to exercise adequate financial control during the construction period;
- (iii) The ultimate form of the Capital and Revenue Accounts to be maintained for the project after construction; and
- (iv) The form of the report which the Engineer-in-charge will desire to write after the completion of the project, describing the manner in which the work has been undertaken and the cost of the main items of the work.

643. As regards item (i), it may be theoretically possible to prepare project estimates in such a form that accounts maintained on the lines of the estimate would not only serve the purpose of item (ii) but would also be the basis on which items (iii) and (iv) would rest. It is however customary to prepare project estimates in a form which groups together under the head "general charges" all such indirect charges as Tools and Plant, establishment (other than that charged to works) interest, and all other miscellaneous charges, instead of allocating them in advance proportionately to the several units of the project. When writing his final report, however, the Engineer-in-charge will desire to show the real cost of the work under each of the more important units of that work. For the purpose of his report, the Engineer-in-charge may work on the basis of the sub-divisions of the work as they appear in the project estimate, or of the subsequent sub-divisions as determined by the allocation to revenue-producing units of the capital at charge of the work. In either case, such a report of real cost by units must necessitate a corresponding ultimate distribution of all the indirect charges mentioned above.

644. It might be feasible to overcome the difficulty of allocating in advance most of the "general charges" between the several units. But there are peculiar problems in the way of framing in advance an estimate, the component items of which shall correspond with the sub-division of the completed work into revenue-producing units, of the allocation of charges connected with (a) Special Tools and Plant, and (b) Interest.

645. *Special Tools and Plant.*—Where Special Tools and Plant are used, or any large labour-saving machinery, the question at once arises of the debit of a proportion of the capital cost to different units of the project. The capital cost of the Special Tools and Plant will ordinarily be debited in the first instance to a separate head, and the question of charging depreciation on such account raises difficult issues. It is in some cases held to be impossible to calculate the depreciation, and to determine the relative utility to individual items of work, with sufficient accuracy to justify an attempt to clear this separate head by debit to units of the work. On the other hand the Engineer may desire that the cost of Special Tools and Plant should be written off against the several works on which they are used, so that he may know the real cost of the works and also exercise proper control over expenditure. This cannot be done without the determination of suitable rates of depreciation on account of Tools and Plant and a reasonable estimate of their residual value on the completion of the work. These have to be fixed by the Executive in consultation with audit.

646. In regard to the following matters the executive will consult audit, though the final decision rests with the former:—

- (a) What items of plant are to be regarded as "ordinary" and what as "special".

- (b) What items of plant are to be depreciated and distributed and what are to be charged finally to Special Tools and Plant. In the latter case the sale-proceeds will, of course, be credited to the same head.
- (c) The life of the plant, the rate of depreciation and the residual value.
- (d) The method of charging off depreciation, whether on a time or on an output basis.

647. Interest charges.—The interest charges on capital outlay are ordinarily met from General Revenues and adjusted periodically by debit to the accounts of the project. In exceptional cases, when the size of a project necessitates a delay of many years before it can begin to be productive, special sanction may be accorded for the adjustment of interest during the construction period by an increase of the loan capital at charge. In either case, the adjustment of interest as between the units of the project will follow the same lines as the adjustment of the capital at charge, for the purpose of determining the allocation as between those units for the purposes of the Capital and Revenue Accounts.

648. Audit.—A consideration of these general principles will make it clear that the initial accounts of such a project must follow the form of the project estimate, and that audit must follow the same lines in order to ensure that financial control is being exercised by a comparison of expenditure with the relevant figures in the project estimate.

649. At the same time it is essential that, as soon as possible after construction is started, a decision should be reached regarding items (iii) and (iv) mentioned in paragraph 642 above, namely:—

- (a) the ultimate form of the Capital and Revenue Accounts which will have to be opened when the work has been constructed and comes into operation; and
- (b) the form of the report which the Engineer-in-charge will desire to produce on the termination of his work.

650. Accounting will have to be so ordered as to prepare the material in a suitable form for both these purposes. So far as the latter is concerned, this is essentially work done on behalf of the Executive and is therefore subject to the orders passed by the Executive. For the former the Auditor General has a definite responsibility. For the fulfilment of that responsibility, Audit must in this case also follow the form of the Accounts, to enable the Auditor General, on the completion of the project and the closing of the Accounts, to satisfy himself as to the correct allocation of the capital at charge as between the separate working units. •

CHAPTER 31.

Stores and Stock Accounts.

651. Responsibility for Audit in respect of Stores and Stock Accounts.—The necessity for maintaining Accounts of Stores and Stock arises, as has been explained in Chapter 18, from the need for ensuring the safe custody and proper utilisation of articles held on charge for use in the public service.

652. The Auditor General is not statutorily responsible for the audit of such accounts unless and until he is required by the Governor General in Council to undertake it under rule 12 of the Auditor General's Rules. This responsibility is discharged through the Indian Audit Department.

653. Priced and Unpriced Accounts.—Practically every department of Government has charge of articles purchased with public money. These articles may be broadly divided into (i) unpriced and (ii) priced; and the responsibility of audit is as a general rule confined to the latter class.

654. Unpriced articles comprise those articles of stationery, furniture, office equipment, etc., which are required for the administrative purposes of an office. They are purchased in the first instance and stored in the office for use as occasion demands. The accounting procedure is simple, as only a numerical account is maintained of each class of article, and (save in the exceptional duty of verification of Furniture in the Residences of High Officials) audit is not concerned in this matter except as regards the initial charges, in regard to which the procedure has been explained in Chapter 29.

655. With few exceptions, all articles fall under the head "Priced Articles" which are required for the activities of a Department in cases in which they are either purchased or manufactured and their cost is charged to a "Suspense Head" which in turn is relieved as articles are consumed. The accounting methods are somewhat complicated in view of the fact that they include two sets of accounts, namely (i) numerical accounts, and (ii) priced accounts; and these two sets of accounts are in many cases maintained by different persons.

656. The general principles of audit of stores and stock accounts have been explained in Chapter 18. It remains now to explain the system of accounts maintained of the various classes of stores and stock in respect of which the Auditor General is required to arrange for audit. In this Manual it is only possible to deal with a few of them by way of illustration. The examples chosen for this purpose are :—

(I) Public Works Stores.

(II) Stores and Stock Accounts of State Railways.

(III) Stores and Stock Accounts of the Telegraph Branch of the Indian Posts and Telegraphs Department.

A brief account is also given of the working of the Indian Stores Department which serves these three and numerous other departments of Government.

(I) PUBLIC WORKS STORES.

657. Administration and Control.—The general administration of all the stores of a Public Works Division, under the headings, stock, tools and plant, and road metal, is vested in the Divisional Officer, on whom primarily devolves the duty of arranging, in accordance with the rules of the Government concerned, for (i) the acquisition of stores, (ii) their custody and distribution according to the requirements of works, and (iii) their disposal.

658. The accounts of these stores are based on the fundamental principle that the cost of their acquisition should be debited direct to the final head of account concerned or the particular work for which they are required, if either of these can be determined at once; otherwise, it is kept in a suspense account pending clearance, as the materials are actually issued, by charge to specific heads of account or works.

659. Maintenance of stock.—The stock of a division is sometimes kept in a single godown or yard in the charge of a storekeeper, or each Sub-divisional Officer may have a separate stock in his charge, either at his headquarters, or scattered over the sub-division in the direct custody of subordinates or other sectional officers. Again, the stock, although scattered over the entire division, may be in the general charge of a single officer, and the Sub-divisional Officers may merely indent upon him, he keeping all the accounts.

660. Stores Accounts maintained by the Executive.—Briefly the following is the account procedure followed by Sub-divisional Officers who hold charges of stock. The Divisional Officer follows a similar procedure in regard to stock in his own charge.

661. Two registers of stock are maintained, one for receipts and another for issues, in which the transactions are posted as they occur. The receipt and issue transactions are then abstracted monthly in the "Abstract of Stock Receipts" and "Abstract of Stock Issues," showing the sources from which the articles are received and the account head or work to which the issues are to be charged. These are then submitted to the Divisional Officer, the entries being first posted in the Half Yearly Balance Return, which is closed as soon as the entries of the last month of the half year have been made. These Registers and Returns represent only quantity accounts, the value accounts being ordinarily maintained of the Divisional Office.

662. These abstracts of receipts and issues are completed in the Divisional Office by valuing the quantities and incorporating adjustments on account of manufacture operations and incidental charges, such as those for carriage, loading and unloading of stock materials.

663. Half-Yearly Register of Stock.—The monthly transactions of stock of the Sub-divisions as brought out in the monthly abstracts of receipts and issues, together with those of the Divisional Office, if any, are then posted in the Half-Yearly Register of Stock. This register is divided into three parts. In the first part are posted the quantities and the aggregate values of the total receipts and issues for each sub-head. The closing balances of the aggregate values of sub-heads are struck at the end of each half year. Their reconciliation with the accounts is effected through Part (II) of the register. Part (III) of the register is used for the review by the Divisional Accountant on the state of affairs of the stock accounts and for the orders of the Divisional Officer.

664. Pricing of Articles.—All articles of stock are priced at the time of their acquisition, and a rate fixed at which they are to be issued. In fixing the issue rate the following factors are taken into account, subject to the proviso that the price should not exceed the market rate :—

- (i) the original price paid ;
- (ii) the cost of carriage, etc. ;
- (iii) the expenditure on work-charged establishment employed on handling and keeping the initial accounts ;
- (iv) the expenditure on the custody of stock ;
- (v) the expenditure on the maintenance of the store godown or yards ; and
- (vi) losses from depreciation or wastage.

The intention is that the issue rate shall be such that there is no ultimate profit or loss in the stock account. At the time of closing the Half-Yearly Register of Stock the Divisional Officer takes opportunity to revise the issue rate of the articles of stock on the basis of the rates prevailing in the market, and this necessitates the adjustment of the difference in the values of stock as worked out at the existing issue rate and the issue rate fixed for the future.

665. Stock Verification.—In order to ensure that the stock consists of efficient and necessary articles, and that the quantity balances as shown in the accounts are correct, the articles are verified periodically, and any discrepancies are brought to the notice of the Divisional Officer. Necessary adjustments are made on receipt of the orders of the competent authority.

666. Accounts of Tools and Plant and Road Metal.—The accounts of Tools and Plant and of Road metal are comparatively simple as only numerical accounts are maintained, their value being charged to the final heads of accounts or works immediately after their acquisition. In respect of Tools and Plant, the Sub-divisional Officer in charge of the articles maintains two accounts for recording the receipts and issues respectively of these articles. The transactions appearing in these accounts are consolidated monthly in a yearly Register of Tools and Plant. At the same time the Divisional Officer maintains a register of Tools and Plant for each sub-division, which is posted from the monthly returns received from the sub-divisions. Annually a reconciliation is effected of the closing balance in respect of each kind of article as worked out in these two registers.

667. In respect of road metal, the Sub-divisional Officer maintains a quantity account of receipts, issues and balances. A copy of the account is submitted monthly to the Divisional Officer.

668. Audit.—The Divisional Officer submits monthly to the Audit Office an account of the Stores transactions of the month. The audit of these stores accounts consists mainly in seeing :—

- (i) that the accounts of receipts of stores, whether purchased or otherwise acquired, and of their issues and balances, are correctly maintained ;
- (ii) that the articles are periodically counted and otherwise examined to verify the accuracy of the quantity balances in the books ;
- (iii) that steps are taken to dispose of unserviceable and surplus stores ; and
- (iv) that the system of stores verification adopted by the executive authorities is adequate and proper.

669. The detailed check in respect of (i) is left to the Divisional Accountant. The accounts of materials borne on stock are scrutinised further to see :—

- (a) that the balance in hand does not exceed the maximum limit prescribed by Government and is not in excess of requirements for a reasonable period ;
- (b) that the materials are priced with reasonable accuracy, and that the current issue rates are reviewed from time to time, and revised when necessary so as to keep them within the market rates ; and
- (c) that action has been taken for the adjustment of profits and losses due to revaluation, stock-taking, or other causes, and that these are not indicative of any serious disregard of rule.

670. The Registers of Stock and Tools and Plant are audited in the audit office unless the Local Government prescribes otherwise. In the latter case the detailed check is left to the Divisional Accountant and test checks are applied at the time of annual inspection. The scrutiny of the accounts of road metal is entrusted to the Divisional Accountant, and is similarly test checked at inspections.

(II) STORES AND STOCK ACCOUNTS OF THE STATE RAILWAYS.

671. *Administration and control.*—The administration and control of the stores of a Railway are conducted by the Stores department of the Railway, under the supervision of a Controller of Stores. On him devolves the duty of ascertaining the needs of the Railway in the matter of materials and stores, and of arranging for procuring them in the most efficient, economical and expeditious manner possible. He is responsible for their receipt, examination and distribution to the various depots, for their custody while in charge of the Stores Department, and finally for their issue on requisitions received from authorised officials. Each depot is in charge of a store-keeper who is assisted by ward-keepers in charge of each ward or section of the store depot.

672. The Stores department is not required to keep any general accounts of the stores transactions of the Railway. Its duties in this respect are limited to the maintenance of numerical records of stores in stock and to the preparation of the initial documents of receipt and issue.

673. *Supply of Stores.*—Articles of stock are procured either (i) by purchases in India, (ii) by manufacture in the Railway Workshops, or (iii) by indent on the Stores Branch of the office of the High Commissioner for India.

674. *Indian Purchases.*—As regards the purchase of Stores in India, special rules have been framed by the Railway Board regulating the class of articles whose supply must be arranged through the agency of the Indian Stores Department. Otherwise an Agent may arrange, by advertising for tenders, for the supply of stores required for the use of the Railway.

675. *Manufacture.*—Certain classes of materials required for the use of a Railway, as for example, castings, duplicates, signal fittings, etc., are manufactured in the Railway Workshops and brought on to stock.

676. *English Purchases.*—Articles of European manufacture are obtained on indent on the Stores Branch of the office of the High Commissioner for India.

677. *Funds for Stores purchases.*—It must be remembered that all Railway Stores are in the first instance brought on the Capital Account of the Railway, so that, if indents are submitted for stores for revenue

purposes, funds for them should be provided from capital in the first instance.

678. Issue of Stores.—When Stores are supplied by the Store depots on indents, an issue note is prepared showing full particulars of the Stores supplied, the officer served, etc., and is receipted by the officer supplied.

679. Numerical Account in the Store Depot.—The transactions of receipt and issue are posted, as they take place, in a numerical record called the “Card Ledger.” A separate card is maintained for each class of stores. The receipts are posted from the Purchase Orders, Advices of despatch of English Stores, etc., while issues are posted from the issue notes.

680. Stores Transaction Returns to the Chief Accounts Office.—At the end of each day’s work, a memorandum is prepared of the day’s transactions and is submitted with the supporting documents to the Stores Accounting Section of the Chief Accounts Office.

681. Revenue Maintenance Material.—For the purpose of ordinary maintenance, each Permanent Way Inspector is provided with an imprest of materials, the amount and nature of which is fixed by the Chief Engineer.

682. District Sub-Depots.—The aggregate of the Imprests in each District forms the District balance of materials, for which the District Engineer must account. Further, where local conditions, such as distance from a regular stores depot, render it desirable, a sub-depot may be established at the headquarters of the District, where a limited supply of materials is kept, sufficient to carry on normal maintenance and to make recoupments of the District Permanent Way Inspectors’ Imprests. The balance in these sub-depots forms part of the District balance of materials.

683. The District Engineer arranges that a certain number of items are verified by actual count each month, so that the whole District stock is verified at least once every six months.

684. District Material Account.—The Divisional Engineer consolidates these imprest accounts and sub-depot accounts in an abstract and submits to the Stores Section of the Chief Accounts Office a monthly District Balance Return of Permanent-way Materials. Separate returns are sent for new and second-hand materials. Separate numerical accounts are maintained in respect of materials obtained from the Store Depots for specific work.

685. Unserviceable Stores.—After Stores become unserviceable owing to depreciation, or are of obsolete pattern, or become surplus, they are not allowed to remain long in stock. They are, if possible, adapted to present requirements; but, when such action is not practicable, a special report of all such stores is made by the Controller of Stores to the Agent, whose orders are taken as to the most economical way of disposing of

them. An Account of such of the surplus stores as the Agent considers to be of sufficient importance is kept in a surplus stores list, and such Stores are retained for not longer than two years, before the end of which period they are either sold by auction or scrapped. All other unserviceable articles are either sold by auction or scrapped as soon as possible after the Agent passes orders.

686. Duties of the Chief Accounts Office.—It has been explained in paragraph 672 above that the responsibility of the departmental authorities in regard to the Stores Accounts is limited to the maintenance of numerical records of stores in stock and the preparation of the initial documents of receipts and issues. All other accounts work in connection with the stores transactions, as for example, their valuation, allocation of expenditure to works, etc., is carried out in the Chief Accounts Office.

687. The work is done in a separate section called the Stores Accounts Section, which is located at or near the general stores magazine and the office of the Controller of Stores. This section is responsible :—

- (i) for the maintenance of priced stores ledgers ;
- (ii) for the scrutiny and payment of all bills for purchases of stores ;
- (iii) for the regular periodical reconciliation of figures in the different connected sets of books ; and
- (iv) for the maintenance of a regular and effective system of stock verification and proper investigation of all discrepancies which it brings to light.

688. Pricing of Articles.—The receipts into stores are priced from the bills or invoices, while the issues from stores are priced from the published price lists of the Stores Department. The price entered in the lists for any article is always based on the average price of that article as shown on the receipt side of the priced ledger. But that average price—otherwise called the Book Rate—will vary with every fluctuation in purchase price ; and, as it is impossible to revise the published price list according to every fluctuation of the Book Rate, a revision is made whenever the variation in price is serious.

689. Stores Priced Ledgers.—The Stores Accounts Section maintains Priced Ledgers in which a separate account is opened for each item of stores for which a separate card ledger is kept in the depot. The postings in the ledgers are made daily,—(a) as regards receipts,—from the Local Purchase Order Forms, the English Distribution Statements, the Advice Notes of Returned Stores, and from Issue Notes for transfers between depots and receipts from workshops, and,—(b) as regards issues,—from the Abstracts of Issue Notes. The ledgers are balanced after each day's new postings as regards quantities, and as frequently as is considered necessary by the local authorities in respect of

values. The balancing at the end of each month is completed as regards quantities, rates and values.

690. Reconciliation between Card Ledger and Priced Ledgers.—It has been explained that the Chief Accounts Officer maintains priced ledgers in respect of all the Stores of the Railway. It is, therefore, necessary to secure a complete reconciliation of the balance in stock as shown in the card ledgers with that shown in the priced ledgers maintained by the Chief Accounts Office. How this is done is explained below.

691. As each card ledger for an item of stores is filled up, the Depot Storekeeper, or the Ward-keeper in charge of each section of the depot, counts the balance of the items in stock and records the actual balance as the last entry on the card, for example "balance by actual count 475." Any excess is brought on as a receipt and any deficiency entered as an issue. A new card ledger is then opened for the item of stores and the balance by actual count is brought forward. The completed card ledger is then sent to the Stores Accounting Section of the Chief Accounts Office for reconciliation with the priced ledgers. In the case of articles of stock where the transactions are few, and long intervals elapse between the completion of each card, the verification by actual count is done at such intervals as the Controller of Stores considers advisable. In such cases the result of the verification of the balance is recorded on the card ledger which is sent to the Accounts office for verification.

692. Stock Verification.—Each class of stores in the custody of the Stores Department is verified once a year by a staff of stores verifiers who are under the administrative control of the Chief Accounts Officer. This verification is independent of and in addition to the periodical counts made by Ward-keepers. These stock verifiers also verify, at intervals of not more than two years, all Engineering materials with Permanent-way Inspectors and District Engineers, and, at intervals of three years, the Tools and Plant of all departments of the Railway.

693. Audit of Stores Account.—It is the function of statutory audit, which is of the nature of supervisory audit as explained in Chapter 32, to see :—

- (i) that the acquisition of stores has been effected in the most economical way and in accordance with orders ;
- (ii) that the quantity accounts of receipt, issues and balances of articles work up to and agree with those shown in the Priced Ledgers ;
- (iii) that the value accounts are correct, and that the allocation of debits to the various heads of account for the cost of stores issued is correct : and

(iv) that the internal system of checking the stores and the Store Accounts is satisfactory.

694. Audit has specially to see that the balances in the accounts represent all stores in hand, whether in the custody of the Stores Department or of other departments, and that stores are not unnecessarily charged off to works with the object of reducing the stores balances. Not only may such charging off of stores to works present an inaccurate picture of the stores transactions of the Railway, but also, in the case of a Company-managed Railway, such action may affect the surplus profits due to the Company, and, in the case of a State-managed Railway, it may affect the contribution to the depreciation fund, and thereby the contribution to the general revenues under the convention for the separation of Railway from General Finance.

(III) STORES AND STOCK ACCOUNTS OF THE TELEGRAPH BRANCH OF THE INDIAN POSTS AND TELEGRAPHS DEPARTMENT.

695. *Administration and control.*—The purchase of the stores of the Telegraph Branch of the Indian Posts and Telegraphs Department, and their custody prior to their issue for consumption, is entrusted to the Stores Branch, supervised by the Controller of Telegraph Stores, who works under the direct administrative control of the Chief Engineer, Telegraphs.

696. The Department has a head depot at Alipore, two branch depots at Bombay and Karachi, and sub-depots at other places. These depots work independently as regards stores accounts, and submit direct to the Audit Office their vouchers and returns relating to transactions in stores.

697. *Accounts.*—The Controller of Telegraph Stores is responsible that proper accounts are maintained in respect of transactions of receipt and issue of stores, and that the prescribed returns are submitted to the Audit Office.

698. As in the case of the Railway Stores, the executive officers in charge of Telegraph Stores maintain numerical accounts of the stores in their custody, while the value accounts are kept in the Audit Office. It must be borne in mind that whereas, in the case of Railway Stores, the Accounts Office is separate from the Audit Office, in the case of Posts and Telegraphs the Audit Office is responsible for accounting duties also. The numerical accounts maintained by the executive officers consist of a series of stock cards, one being maintained for each description of stores. Each receipt or issue of stores is supported by a voucher of receipt or issue in the proper form. These transactions are then posted and the balance struck in the stock cards. The vouchers relating to the store transactions of each day are submitted to the Audit Office on the second following day.

699. Pricing of Articles.—The issue rates, that is to say the rates at which articles of stock are issued to works, are revised from time to time, on the initiative of the Stores Accounting Branch of the Audit Office, as may be necessitated by important fluctuations of the Market rate, and are notified by the Controller of Telegraph Stores.

700. When a revised rate comes into force the Stores Branch of the Audit Office revises the rate of the articles as entered in its books, and makes a book adjustment for the difference.

701. Stores and Stock with the Divisional Engineers.—The Divisional Engineers and Sub-Divisional Officers also maintain stores constituting Maintenance Stock, and stores obtained for use on, and released from, works.

702. Except for such stores as may be purchased locally, all stores are obtained from the Controller of Telegraph Stores, and their value is charged off direct to the works or services concerned by the Stores Branch of the Audit Office. Consequently, the value of stores in the Division does not appear in any initial accounts of the Division except when they are purchased locally.

703. The Divisional Engineers maintain numerical accounts of the receipts, issues and balances of all stores forming part of the Maintenance Stock, and of stores obtained for the execution of works.

704. Unserviceable Stores.—Unserviceable and obsolete stores consist of (i) those released from works or offices, etc., and (ii) those which become unserviceable while in stock in Store Depots. The bulk of the former are sold locally by the officers in charge of works, and the accounts of such sales form part of and are audited with the accounts of works. A few kinds of line material and all Apparatus and Plant are, however, returned to Store Depots for disposal. A Scrapping Committee is set up to deal with unserviceable or obsolete (i) instruments received from Divisions, and (ii) line material, or apparatus and Plant, borne on stock. On the recommendations of the Scrapping Committee the articles are either sold by auction or sent to the workshop as scrap.

705. Audit.—A Branch of the Audit Office has been established in the Alipore Store-yard to deal with the accounts, initial and final, of the Store Depots. The functions of the Audit Officer in charge of this store-yard are three-fold.

706. It has already been explained how, in his capacity as Accounting Officer, he values the receipts, issues, and balances and maintains valued accounts corresponding with the numerical accounts maintained in the Store Depots, and links up and proves these valued accounts with the financial accounts of the money spent in the acquisition of stores, and of the value of stores consumed in the works constructed and services rendered by the Department.

707. Secondly, he acts as the financial adviser to the Controller of Telegraph Stores in all matters of Stores accounts and general finance.

708. Finally, as an independent auditor, he is responsible through the Accountant General, Posts and Telegraphs, to the Auditor General, for the due discharge of the statutory responsibilities of that authority in the matter of the audit of expenditure and of stores accounts,—that all stores transactions that are reported to him through the various accounts and vouchers are subjected to a vigorous and searching scrutiny to ascertain whether all rules and orders of superior authority in the incurring of expenditure, realisation of receipts, and in respect of receipt, custody and issue of stores, are fully observed.

709. *Stock-taking and stock verification.*—In order to secure efficiency in store-keeping, a continuous or progressive stock-taking is carried out by officers in charge of stores in such a manner that all stores are completely verified in the course of the year. The stock held in the Store Depots is also verified once a year by a stock-verifier working under the orders of the Audit Office.

710. Discrepancies noticed in the course of stock-taking are reported to the authorities concerned and their orders obtained for the adjustment or write-off of the value of the excess or deficiency in stock.

THE INDIAN STORES DEPARTMENT.

711. *Activities of the Indian Stores Department.*—It has been explained in the foregoing paragraphs how the accounts of stock are maintained in certain Government Departments and how they undergo audit scrutiny. These and other departments consume a considerable quantity of stores; and, in order to procure these stores in the most economical way, a technical department called the Indian Stores Department has been established in India. A similar department is also established in London under the High Commissioner for India.

712. The Indian Stores Department effects purchases for all Departments under the Central Government, and for Minor Local Governments. Provincial Governments may also utilise the services of this Department to purchase the stores which they require.

713. The department also purchases stores on behalf of the Indian States and Public Bodies on the condition that the cost of the stores (including the departmental charges) is deposited with the Government in the first instance.

714. The function of the purchasing branches is to receive indents, and to arrange for compliance with them by placing contracts with supplying firms. Orders are placed in accordance with the "Rules for the supply of articles required to be purchased for the Public Service."

715. The Indian Stores Department holds no stock of stores of any kind. On receipt of an indent, supply is arranged in one of two ways—either by placing a separate order for the stores demanded, or by combining the demand with others for compliance under a “running” or “rate” contract.

716. There are also Provincial Purchase Officers located at Calcutta, Bombay, and Karachi. These Officers receive indents up to certain monetary limits direct from indentors, and comply with them from sources within their local areas.

717. The effect of the purchase of stores for the various departments of Government by this department may be broadly summarised as follows :—

- (i) They are procured in the most economical way.
- (ii) The locking-up of capital in stock is minimised.
- (iii) The wastage of articles, which would otherwise be considerable, is much reduced.

718. *The Audit Officer, Indian Stores Department.*—Payment for stores obtained through the Indian Stores Department is made by the Audit Officer, Indian Stores Department, Delhi, who is both Accounting Officer and Auditor of the Department. Indenting Officers may not make payment direct to the suppliers; but the Audit Officer informs the consignee of the payments made for the stores purchased on his behalf, so that the latter may take cognizance of the liabilities for the purpose of exercising financial control against provision of funds.

719. *Adjustment of Accounts.*—In his capacity as Accounting Officer, the Audit Officer, Indian Stores Department, raises debits for the cost of stores purchased through the Indian Stores Department by Government officers (and also for the departmental charges which are levied by the Indian Stores Department for purchase and inspection conducted on behalf of Provincial Governments or for Army and Commercial departments) against the Accounts Officer of the consignee in the account of the month in which the suppliers' bills are paid, and he sends to the Accounts Officer concerned, at the beginning of the second month after that to which the transactions pertain, exchange accounts showing all such transactions. The Accounts Officer accepts the debit against the account of the indenting officer and notifies the latter that he has done so.

720. *Audit.*—The payments mentioned in paragraph 718 above are made by cheques after the bills have been pre-audited. The ordinary principles governing the audit of expenditure (Chapters 13 to 17) above are applicable to these payments, special attention being paid to the audit of sanctions (Chapter 14) the scrutiny of contracts (see paragraphs 620 to 622), certificates of inspection, and certificates from the consignees for their acceptance of stores.

CHAPTER 32.

Accounting and Audit of Railway Receipts and Expenditure.

I.—GENERAL ORGANISATION.

721. Railways—A Central Subject.—Under the Reforms of 1919, Railways in India were classified as a central subject. As an exception to this, certain light and feeder Railways and extra municipal tramways, (as detailed in item 6 (d) of Part II of Schedule I to the Devolution Rules), administered by Provincial Governments, were classified as Provincial subjects. This Chapter deals with those Railways only which fall under the head “Central subjects”.

722. Of the Railways in India owned by the State, some are worked by Government and some by Companies. Under both systems of working, the Government of India have a financial interest in the results. In its Railway system, the Government of India possesses an extremely valuable property, which earns a large but variable net profit on the considerable Capital invested in it. This annual net profit forms part of the general revenues of India ; but, as will be explained, a convention has been established under which Railway revenues contribute annually an amount (fixed by a formula) to General Revenues, the balance being taken to the Railway Reserve Fund.

723. Railway Finance.—This convention, which was approved by the Secretary of State, and accepted by the Legislative Assembly, is tantamount to a separation, with effect from the accounts for 1924-25, of the finances of the Indian Railways from the general finances of the Government of India. The most notable features of this separation were, *firstly*, the fixation of a definite annual contribution from Railways to general revenues, calculated with reference to the capital at charge of the Railway system and the profits earned by it ; and, *secondly*, the establishment of Reserve and Depreciation Funds for Railways. This departure was accompanied by considerable changes in the accounting system. Three of the most important of these were as follows. (i) The head Working Expenses was debited, in respect of renewals and replacements, with the amount transferred to the Depreciation Fund during the year, instead of with the actual cost of renewals effected. (ii) At the same time, an important change was made in the allocation between revenue and capital of the cost of replacing assets. Under the arrangement previously in force, Capital had contributed that share only of the cost of replacement which represented an actual improvement in the effectiveness of the asset, the balance being a charge against revenue. The new arrangement allows the debit to Capital of the full amount by which

the replacement cost exceeds the original cost of the asset whether or not improvement is effected.* (iii) The third radical change affected the head Interest. The price of certain Railways purchased by Government is in process of repayment by means of annuities, which naturally include elements both of principal and of interest. The whole of these annuities had previously been debited to revenue under the head interest; but, with effect from the year of separation, the element of principal was taken as a charge against general balances and not against Railway revenues.

724. *Financial control.*—At the time when the separation of Railway Finance was under discussion, the question was raised whether such separation would have the effect of weakening the control of the Finance Department (Ordinary Branch). The answer to this lay in the fact that the Financial Commissioner, Railways, in his capacity as Financial Adviser, is the representative of and subordinate to the Finance Department. Nevertheless, the difficulty still remained that his control was to a large extent hampered by the fact that the Accounting Officers on the Railways were in no sense subordinate to him. Thus there arose on the Railway side a problem similar to that which, in its relation to Civil Accounts, has been discussed in Chapter 4; and an experiment was therefore made of the separation of Railway Accounts from Audit, on the lines explained in the following paragraphs.

725. *Separation of Accounts from Audit.*—In 1925, the Legislative Assembly passed a resolution containing recommendations to the effect that:—

- (a) “The Auditor General in India shall be responsible for audit alone. He should no longer be required to maintain the accounts of Railways or to control their accounts staff. Such control should pass, not to the Railway Board as such, but to the Financial Commissioner of Railways. On each Railway system the accounting staff will be under the orders of the Financial Commissioner of Railways for the purpose of appointments, promotions, transfers, etc., reporting however, to the Financial Commissioner any differences that may arise from time to time between himself and the Agent. Such differences shall in due course be made available for inspection by the Standing Finance Committee for Railways.
- (b) “The accounts staff under the Financial Commissioner of Railways shall perform duties practically identical with those hitherto undertaken on State-managed Railways by the accounts and audit staff under the Auditor General. Where the latter exercised an audit properly so called, the

*NOTE.—This change applies only to State-managed Railways, and not to Company-managed Railways.

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new agency will conduct an internal check ; but the nature and extent of the scrutiny will be approximately the same in both cases.

- (c) " The Auditor General shall, in order to enable him to fulfil his statutory responsibilities, be provided with a sufficient staff to make a satisfactory audit of the work of the Account Offices."

726. The system was introduced as an experimental measure on the East Indian Railway with effect from the 1st December 1925.

727. The results of the experiment proved to be satisfactory, and the Government of India sanctioned, with the approval of the Secretary of State for India in Council, the continuance of this system as a permanent measure. The system was by degrees extended to other State Railways.

728. The Financial Commissioner, Railways, in his capacity as the representative of the Finance Department, took over the responsibility for the compilation of all the accounts for the Indian Railways from the Auditor General with effect from the 1st April 1929. From this date a headquarters accounts establishment under the Financial Commissioner was created.

729. This separation secured, *firstly* an internal check—the primary function being to assist the executive—and *secondly* an external test check, called Statutory Audit, conducted primarily on behalf of the Secretary of State in Council, and secondarily to aid the Executive in their financial control and to assist the legislature.

730. *System prior to separation of Accounts from Audit.*—Before effect was given to this separation of Accounts from Audit, the accounting and audit of receipts and expenditure of Railways owned and worked by Government was performed by the Indian Audit Department. In all account and audit matters relating to Railways, the Accountant-General, Railways, was immediately subordinate to the Auditor General and was responsible to him for their efficient disposal.

731. Subordinate to the Accountant-General, Railways were, (a) the Chief Auditors of Open Lines of State-worked Railways, (b) the Audit Officers of State Railways under construction or survey by State Agency, and (c) the Government Examiners of Railways Accounts.

732. The Chief Auditors of those State Railways which were worked by Companies, though not directly subordinate to the Accountant-General, Railways, were responsible for carrying out all instructions issued by him, and for preparing and submitting all accounts and returns required by him. The function of the Government Examiners

of Railway Accounts, mentioned in the last paragraph, was to exercise a supervisory audit in the form of a test-check of the audit work carried out by the Chief Auditors of the Company-worked Railways.

733. Statutory Audit after the Separation.—As a result of the separation, the Auditor General is no longer responsible for the compilation of the Railway Accounts; but he incorporates in the Finance and Revenue Accounts of the Government of India the compiled accounts of Railways prepared by the Railway Accounts Department in such form as he may prescribe. His responsibility for the audit of the accounts of Railways is briefly as follows :—

- (i) It extends, in respect of expenditure transactions, to all expenditure incurred in India ;
- (ii) In respect of receipts, it includes receipts of State Railways, whether under construction or open to traffic, and whether under the direct administration of the State or of the Agency of a Company, including receipts relating to accounts of manufacture. It includes also the receipts of Company-owned Railways to the extent covered by the terms of their contracts or agreements ; and
- (iii) It includes stores and stock accounts, to the extent explained in Chapter 31.

734. The Auditor-General also scrutinises, on behalf of the Legislative Assembly and the Finance Department of the Government of India, the correctness of the Railway contribution credited annually to General Revenues under the convention for the Separation of Railway from General Finances mentioned in paragraph 723.

735. It may be mentioned that, so far as Railway Accounts are concerned, Audit has no power of surcharge or disallowance, but is bound to bring to the notice of the Account Officer concerned all payments which are irregular or inadmissible. It is for the latter to initiate action in order to regularise the expenditure or to effect retrenchment.

736. The audit work which is summarised above is now entrusted to the Director of Railway Audit, who is, in addition, responsible for the preparation of the Report on the Appropriation Accounts of the Railways compiled by the Railway Accounts Department. He also supervises the staff of the Audit Offices subordinate to him and the work performed in those offices.

737. This Statutory Audit is a supervisory Audit, the main object being to ensure that the system of accounts used by the internal check authority of State-managed Railways, and by the auditors of the Company-managed Railways, is correct, that the method of check applied

at every stage of the accounts is sufficient, that the accounts are maintained and the checks applied with due accuracy, and that arrangements exist in the Accounts Offices to ensure attention to the financial interests of the Railways on the part of all concerned. This object is secured by a percentage check to be applied to the vouchers and connected accounts records of the Accounts Office and by inspection on the spot of initial records and documents in the offices in which the transactions originate.

738. For the efficient conduct of Statutory Audit, the Audit Officer must acquire a detailed knowledge of the working of the whole financial system of Railways, and in particular of the Accounts work and of the methods of internal check as applied by the Accounts Officers. This knowledge can only be gained by personal experience of the work ; but certain of the main principles of Railway Accounting are summarised in this Chapter in order to indicate briefly the main features towards which the attention of a Statutory Auditor should be directed.

739. *Financial and Audit Control.*—All receipts and expenditure of Railways owned by Government, whether State-managed or Company-managed, form part of the revenue and expenditure of the Government of India, and are subject to the same principles of financial and audit control as other revenues and expenditure of the Central Government.

II.—ACCOUNTING AND INTERNAL CHECK.

740. *Main divisions.*—The following paragraphs explain briefly the general principles under which the accounting and internal check in regard to—

- (A) Capital Expenditure ;
- (B) Revenue Expenditure ; and
- (C) Receipts ;

are conducted by the Accounts Department in Railways owned and worked by Government.

A.—EXPENDITURE ON CONSTRUCTION OF NEW RAILWAYS.

741. *Provision of Funds for Capital expenditure.*—The main sources from which funds are provided for capital expenditure on Railways are :—

- (a) Loans from current surplus general revenues or cash balances accruing from previous surpluses ;
- (b) Amounts borrowed in the open market ; and

(c) Debenture loans raised, with the approval of the Secretary of State, by Companies managing State Railways.

742. Programme of Capital Expenditure.—The following procedure is followed in determining the programme of capital expenditure on Railways. The entire amount required for Railway construction expenditure in any year, whether on State or Company worked lines, is set out in an annual estimate the limits of which are determined on the one hand by the funds which can be made available from the sources mentioned in the preceding paragraph, and on the other by the capacity of the Railways to spend the money profitably and economically within the year. Some time before the preparation of the budget for the next official year, a careful forecast is made of the probable requirements under these three heads; and the amounts which it is necessary to borrow in England and in India, respectively, are then settled in correspondence between the Government of India and the Secretary of State. The amount for which the programme is to be prepared being decided, the apportionment of this amount between the several Railways, whether State or Company worked, and irrespective of the sources from which the funds are to be provided, is then settled by the Railway Department on estimates in which the Railway Administrations intimate their requirements for the ensuing year. The programme of capital expenditure is actually prepared on a three-year basis, but the provision required for each year of the triennium is considered separately in fixing the programme of the year.

743. All proposals for expenditure on the construction of new Railways are submitted for the sanction of competent authority supported by estimates; and ordinarily sanction is not accorded till such estimates are received and considered.

744. Check against construction estimate.—The construction estimate for a new Railway, after it has received the sanction of Government, becomes the authority for the Chief Accounts Officer to pass expenditure on the project up to the amounts sanctioned under the several heads and sub-heads of the estimate, and it is his duty to bring to the notice of the Engineer-in-Chief, or other administrative officer in charge of the work, the fact that the provision under any head or sub-head is being or is likely to be exceeded immediately this becomes apparent. For this purpose he keeps a register in which is recorded from month to month the expenditure actually incurred against the sanctioned provision under each head and sub-head.

745. The Engineer-in-Chief has power, subject to certain limitations, to transfer anticipated savings under certain heads to meet probable excesses under others. If any excesses occur which cannot be regularised by the Engineer-in-Chief, or if the Engineer-in-Chief is satisfied that there is reasonable probability of such excesses occurring, a reference

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must immediately be made to the Railway Board, accompanied it necessary by a revised estimate, with a full explanation of the causes which have led to the excess.

746. It is important that this should be done as promptly as possible, as the excess may require the sanction of the Secretary of State, and any delay in obtaining this might result in the stoppage of work and consequent loss to Government, or in the Secretary of State's sanction being anticipated, a course to which he, as the supreme authority in whom is vested by statute the control over all expenditure, is much opposed except in cases of real emergency.

747. *Check against Budget Provision.*—In addition to the control exercised over the total construction expenditure on a Railway by means of the construction estimate, there is the further control to be exercised over the expenditure in any year with reference to the budget provision for the year. As in the case of central expenditure generally, section 67A of the Government of India Act, which provides for control by the Indian Legislature over such expenditure, applies. Funds for the year for capital expenditure on all Railways are allotted to the Railway Board which distributes them among the several Railway Administrations.

748. *Distribution of funds between England and India.*—The total provision for construction expenditure on a Railway is divided into two parts—

- (a) allotment for expenditure in India ;
- (b) allotment for expenditure in England.

749. The latter is hypothecated to meet the expenditure to be incurred in England by the Secretary of State, the High Commissioner for India, or the Home Boards of Indian Railway Companies, on the purchase of stores, for which indents have previously been sent forward or are likely to be sent forward during the year. It is necessary to control strictly transfers between the English and the Indian allotments, because of the effect such transfers have on the cash balances available in England and in India. Consequently transfers between these allotments cannot be made without higher sanction.

750. The English allotment placed at the disposal of each Railway is divided into two classes, (a) works, and (b) general purposes. The former provides for expenditure debitable to works for which estimates are required to be prepared ; the latter provides for all other expenditure on stores required for the general purposes of the Railway, including maintenance and repairs. Further details in regard to this are contained in Chapter 31.

751. *Control over Capital Expenditure.*—There are two main objects in the close watch over expenditure against provision of funds under

the Capital account, namely to ensure on the one hand that the total provision for all Railways shall not be exceeded, and on the other to minimise the lapses on the allotments of all the Railways combined.

752. The Chief Accounts Officer accordingly sees that the amount allotted to the Railway is not exceeded, and assists the Agent and the Heads of Departments in the matter by issuing warnings to them as soon as the records show that there is a possibility of an excess over the sanctioned allotment, or that portion of it entrusted for expenditure to the Head of the Department concerned. He also brings to the notice of the administration the likelihood of any portion of the allotted amount not being spent during the year, in order that the amount no longer required may be definitely surrendered to Government to be placed at the disposal of some other Railway which is in urgent need of additional funds.

753. The means by which this object will be attained are a frequent and critical examination of—

- (a) The compiled accounts of each month, and any earlier approximate figures that may be available.
- (b) The progress of expenditure in England against indents sent forward for compliance.

The responsibility for keeping the expenditure within the grant rests with the authority administering the grant.

754. *Check of expenditure in a construction division.*—The expenditure brought to account by a Divisional Officer of a Railway under construction is audited on lines which approximate very closely to those which have been indicated in Chapter 30 above in respect of expenditure brought to account in an ordinary Public Works division.

B.—EXPENDITURE ON OPEN LINES.

755. *Sanction, and provision of funds.*—As in the case of lines under construction, before any payment can be made, the work in respect of which the claim is put forward must have been sanctioned by competent authority, and funds must exist in the budget estimates of the year to cover the charge.

756. Expenditure on new works and improvements on open lines chargeable to capital is incurred against the construction estimates of works the cost of which amounts to Rs. 18 lakhs and over in each case and against ordinary detailed estimates for works costing less than Rs. 18 lakhs each. A lump sum provision divided into allotment for expenditure in India and allotment for expenditure in England is made for each Railway Administration to meet the capital expenditure during

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the financial year on all the works, and audit against provision of funds is performed in accordance with the principles described in Chapter 15.

757. As regards ordinary revenue expenditure, from the total sum voted by the Legislative Assembly for expenditure on all the Railways during the financial year, a budget allotment is made by the Government of India to each Railway Administration to cover outlay of all description during the year against which the Agent is competent to authorise all outlay subject to the condition that specific sanction of competent authority must be separately obtained to items of expenditure on establishment or on works where under rules such sanctions are necessary. The fact of a charge which requires a special sanction having been included and passed in a budget is no authority for its payment.

758. *Payments, and Accounting.*—The system of accounting for expenditure on open lines of Railways arises from the fact that departmental officers have no concern with actual payment, which is done in the Accounts office after pre-check of the bills. Thus the duties of departmental officers on open lines are as a rule confined to seeing that claims are correctly prepared both as to quantity and quality of work done, that proper records are kept of the initial transactions, and that bills are punctually submitted to the Accounts officer for check and payment.

759. The bills received from departmental officers, consisting of bills for pay and allowances, muster rolls, and contract certificates (or bills), for payments to staff, labourers, contractors, etc., are subjected to check in much the same manner as such bills in non-separated Audit and Accounts Offices are audited when received.

760. In Railways in which the Divisional System has been introduced, the checking of these bills is entrusted to, and payment of them is made by, the Divisional Accounts officers.

761. There is a modified form of check of Railway establishment bills, but the difference is not sufficiently important to warrant detailed explanation.

762. Before submission to the Accounts office, the bills, so far as they relate to Revenue charges, are posted into departmental allocation registers; and so far as they relate to Capital expenditure, into the detained works registers maintained in district or divisional engineering offices. The object of these registers is to keep Heads of Departments informed of the progress of expenditure against the estimates and allotments, and they are required to be sent to the Accounts office once a month for reconciliation with the corresponding allocation and works registers maintained in that office, which are posted from the checked bills.

763. Workshop expenditure.—Workshop expenditure is recorded under suspense heads of the Capital account, which is relieved only when actual issues are made to Capital and Revenue works and services. The primary business of the workshops is to repair Locomotives, Carriages and wagons; some of the shops also manufacture spare parts, underframes, etc. The actual cost of manufacture, is calculated and is transferred to the accounts of the consuming department concerned. Here the essential functions of internal check are to ensure the correct calculation of the cost of each job and to watch the recovery of this cost from the department or person for whom the work is done.

764. All work done in a workshop except ordinary maintenance and repairs must be carried out against a duly sanctioned estimate such as is required in the case of engineering Capital and Revenue works. The estimates are, of course, treated purely as estimates, the actual cost of the work being charged to the departments concerned. When work is undertaken for private parties, the amount of the estimate must be deposited before the work is taken in hand. Estimates for petty jobs are not necessary within certain limits fixed by the Agent.

765. Every requisition for work is accompanied by a Workshop order, so that the first essential account form is a Work Order Register, showing work undertaken, the time taken in the completion of the job, and what the job has cost. The register is maintained by the Accounts officer attached to the workshop.

766. Workshop expenditure falls under two heads—

(a) Labour; and

(b) Stores drawn from stock to be used in the process of manufacture.

767. For the accounting of payments to labour, a daily muster roll, an allocated abstract of labour, and a register of unpaid wages are kept. The muster rolls or labour pay-sheets are submitted to Accounts for payment, and the amounts due are carried into the allocated abstract of labour which shows the total daily expenditure against each particular job. The stores consumed in the process of manufacture are in a similar manner carried into an allocated abstract of stores used on each particular work.

768. The charges against each job are collected together in what are known as Outturn Statements.

769. In addition to the direct charges for labour and stores, there are certain items of expenditure of a general nature, known as "general charges" such as wages of mechanics, apprentices, mistries, bhisties, sweepers, gatekeepers, etc., which cannot be directly allocated to any

particular job. Expenditure of this nature is distributed proportionately over the several works entered in the Outturn Statement.

770. These statements are then "accepted" by the departments of the Railways, or private parties, as the case may be, and the value of the work done is credited to "Workshop Suspense" on the authority of such acceptances.

771. The Account Officer attached to the workshop submits to the Chief Account Officer monthly an Account Current showing the state of affairs of the workshop, that is, what the shop owes and what is owing to it. In order to carry the entries from the account current to the general books of the Railway, the transactions are passed through journal entries which are known as Capital Journal Entries and Revenue Journal Entries.

772. The balance of this Account Current represents the cash and stores expended on jobs awaiting adjustment. This balance must be analysed and full details posted in a register to facilitate a regular and systematic clearance of the "Workshop Suspense" Account. The proof of the balance must be complete at the end of each year and a certificate to this effect given in the Finance Accounts.

773. The check of recoveries is comparatively simple as the vast majority of these are from other departments and the recovery in such a case is made by book adjustment in the Account Office. The rule of prepayment for work done for private persons simplifies the check of cash recoveries.

C.—RAILWAY RECEIPTS.

774. *Sources of Revenue.*—The revenue of Railways is earned almost wholly from the transport of passengers and merchandise, and is realised through the agency of booking and goods clerks employed at stations where the initial transactions are brought to account. Other sources of revenue are of minor importance.

775. In the preparation of Station Accounts, and Returns of Earnings, it may be mentioned that the Railway day commences and ends at midnight. The calendar month begins at midnight on the first, and ends at midnight on the last day of the month. The main Station Accounts returns are compiled for the complete month; but to admit of the work of internal check being kept up-to-date and distributed over the month, certain subsidiary returns and documents are completed up to and submitted for intermediate periods of the month, namely (i) first to twelfth, (ii) thirteenth to twenty-fourth, and (iii) twenty-fifth to the end of the month.

776. The rates and fares in accordance with which traffic is accepted have to be kept within certain maxima and minima fixed by Government.

777. In return for payments received, Railways issue tickets or vouchers, differing in form according to the description of traffic carried, which entitle the holders to the services of the Railway for the conveyance of passengers or goods. These vouchers form the basis of the Railway accounts of receipts. Only one payment is made even if the services of more than one Railway are utilised.

778. *Accounting of Revenue.*—The Account Officers have to see—

- (i) that the person to whom the service is rendered pays the proper amount ;
- (ii) that the Railway servants receiving payment correctly account for the same ; and
- (iii) that, if more than one Railway renders the service, the receipt is properly distributed between them.

779. *Check that correct amount is paid.*—In the case of passenger traffic, the first duty is facilitated by having the fare printed on the ticket in most cases. In the Chief Accounts office a certain percentage of the amounts entered on the blank tickets and on the goods vouchers are checked. It is further necessary, however, to ensure that no passenger travels without a ticket, that he does not travel in a carriage of a class higher than that for which he has paid, and that no goods are allowed to be removed from the Railway until the cost of their carriage has been paid. These have to be checked by travelling ticket inspectors and by officers inspecting stations. The former on some lines are under Accounts, on others they are under the Traffic Department of the Railway.

780. *Check that payments are duly brought to Account.*—The second duty above-mentioned is performed by an elaborate system of accounting. In the first place the tickets supplied to stations by the Chief Accounts office are, as a precaution against fraud, machine-numbered in progressive series. The station master or booking clerk is held personally responsible for the stock of tickets in his custody and all missing numbers which cannot be properly accounted for are placed to his debit.

781. The most important original record at a station is the Trains Cash Book from which all other returns are compiled. Payment is made at the time of issue, either in cash or by credit note, for tickets issued by station masters. The amount so collected is entered in the daily cash book of the station, the receipts being classified under the various descriptions of coaching traffic. When the cash book is closed, the cash is placed in the safe.

782. Except in the case of stations which are required to remit their earnings direct to the local Treasury, the entire collections of the day,

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represented by coin, cheques, currency notes, etc., are sent to the Cashier of the Railway by the first train passing the station in which a travelling cash safe may be conveyed after the day's work is finished, and no balance of cash may be retained by a station master without special orders. The money is sent under cover of a remittance note and the Cashier's acknowledgment is recorded with the station counterfoil of the remittance note.

783. *Parcels Traffic.*—In addition to the "Trains Cash Book" a "Parcels Inwards" book is kept up to record all parcels received at a station for delivery whether the parcels are "Paid" or "To Pay". The receiving station is responsible for the recovery of all undercharges on parcels before delivery and the entry of the recoveries in the Cash and Parcels Inwards books.

784. *Coaching Returns.*—The principal coaching returns submitted to the Accounts office are—

- (i) Classification of Passengers.
- (ii) Coaching Balance sheet.

785. *The monthly Classification of Passengers* shows the receipts of the month on account of passenger fares collected. It is checked with the collected tickets sent to the Accounts office, the main object being to see that the station has accounted properly for all tickets. The check is made by comparing the opening numbers of the current month's return with the closing numbers of the previous month's return. The highest number of each class of tickets issued is then obtained from the collected tickets, and the difference between the opening numbers and the highest numbers represents the number of tickets for which the station has to account. As regards the entries of blank card and paper tickets, these are compared with the reports of the ticket examining staff at junctions and other stations and with the collected tickets. The credit taken for non-issued tickets, and for half tickets remaining unissued at the close of the month, is verified by comparison with the tickets and half-tickets sent in daily and monthly respectively by stations. Finally the rates are verified and the amount due is calculated with reference to the number of chargeable tickets.

786. *The Coaching Balance Sheet* enables a watch to be kept over the prompt realisation of outstandings. The debits consist of traffic earnings of the month, under charges, excess bookings, and miscellaneous transactions as detailed in the various returns submitted by the station, and the credits of the cash sent to the Cashier, and any special credits. The balance represents the amount of outstandings to be collected by the station, such as freight and demurrage charges on undelivered parcels, etc. All errors discovered in checking, and the correct balance, are

intimated to the Station Master ; and the next balance sheet of the station has to open with the " checked " or correct balance. *

787. Goods Traffic.—Although the forms used and returns prepared in accounting for goods receipts may differ from those used for coaching, the principles remain the same. The money collected for freight is entered in the Goods Cash Book. Goods are despatched under " Invoices ", and the station is required to keep up " Goods Outwards and Inwards " books in which full particulars of invoices are entered. From these primary books returns are prepared and submitted to Accounts together with the monthly " Balance Sheet ". The principles to be observed in checking Way-bills, Parcels, Returns and the Coaching Balance Sheet apply equally to the checking of Invoices, Goods Returns and the Goods Balance Sheet.

788. Local and Through Traffic.—The internal check of all earnings, other than those arising from foreign traffic of the State-managed Railways and of the Bombay, Baroda and Central India Railway, is conducted in the Chief Accounts Office of the Railway concerned. This traffic is termed " Local ". Traffic interchanged amongst these Railways is termed " Clearing House traffic ", and is checked in the office of the Director, Railway Clearing Accounts Office, Delhi. Traffic interchanged between the above-mentioned Railways on the one side and all other Indian Railways on the other side is called " Foreign Non-Clearing House traffic ", and is also checked in the Clearing Accounts Office.

789. In respect of the local traffic, each station appends to its balance sheet, and submits periodically to its Accounts Office, the following returns and documents in support of the entries in the Balance sheet :—

For goods traffic.—Abstracts and summaries of goods traffic forwarded. Abstracts and summaries of goods traffic received together with copies of the invoices received from the forwarding stations.

For parcels traffic.—Abstracts and summaries similar to those rendered for goods traffic, and also the copies of the received parcels way-bills.

For passenger traffic.—Classification and summaries of tickets issued.

For miscellaneous traffic.—Such returns and documents as are appropriate.

The station also submits to the Clearing Accounts Office, Delhi, similar statements in respect of the Clearing House traffic and Foreign Non-Clearing House traffic.

790. Railway Clearing Accounts Office.—The function of the Railway Clearing Accounts Office is to conduct the internal check of the returns from Stations of State-worked Railways in respect of through traffic,

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and the apportionment of all traffic interchanged between such Railways. It deals also with the apportionment of traffic interchanged with some Company-worked Railways.

791. Briefly the detailed procedure followed in that Office is as follows:—A separate card is prepared for each invoice and is ‘punched’ to show, *inter alia*, the total weight, the rate-mileage due to each Railway, and the total freight of the invoice. By sorting these cards on a basis which expresses the fractions of weight and rate-mileage due to each Railway in convenient units, varying from 1 to 9 for the purpose of multiplication, the Hollerith or Powers machines tabulate the freight due to each Railway for the total traffic originating from each station, or each group of stations treated as one station. All cards of the same single digit and relating to one station, or group of stations treated as one, are passed through the machine at one operation, and the machine records the total number which is to be multiplied by each single digit. Thousands of cards of the same single digit are often handled in one operation.

792. The above procedure provides information which secures reconciliation of the traffic apportioned in the Division Sheets prepared by the Clearing Accounts Office with the entries in the accounts statement rendered by stations. This enables the Railway receiving Division Sheets to satisfy itself, should it wish to do so, that the entire traffic for the period to which the Division Sheets relate has been included in them.

793. The Clearing Accounts Office exchanges Division Sheets on behalf of the Railways party to it with the Account Offices of those Railways which have not joined the system of joint clearing accounts.

794. The Clearing Accounts Office also submits monthly to the Account Officers of those Railways which are party to it statements showing the amounts creditable as revenue, for inclusion in their respective Traffic Books.

795. *Traffic Book*.—The Traffic Book is maintained separately for coaching and goods, and brings together, through the summary at the close of the month, the whole of the traffic earnings of a Railway, both Local and Foreign, under the several prescribed heads of accounts, namely Coaching, Goods, Steamboat, Telegraph and Sundries. It shows also the opening and closing balances of the Home line stations and of the Chief Accounts Office with the various debits and credits of each, and it records the progress of adjustment of Through traffic transactions with the lines with which it clears traffic. It further shows the unadjusted balances on these accounts, which should be susceptible of verification with the balances in Registers of unaccounted Invoices and Way-Bills. From the Traffic Book the figures of receipts under the prescribed heads of account are carried into the Journal, and finally into the General Books of the Railway.

796. The Traffic Book consists of four distinct parts namely, A—the Cash or Balance Sheet part; B—Adjustment or Division Sheet part; C—the Ledger account of all the Home line; and D—an abstract of earnings and statement of balances. The items comprised in the first part, representing amounts for the realisation of which the Home line is responsible, are—

- (a) The entire Local Coaching and Goods Traffic.
- (b) Outwards “ Paid ” and Inwards “ To Pay ” Foreign Traffic as under—
 - (i) Passengers.
 - (ii) Luggage, Horses, Carriages and Dogs.
 - (iii) Parcels, Outwards “ Paid.”
 - (iv) Parcels, Inwards “ To Pay.”
 - (v) Goods, Outwards “ Paid.”
 - (vi) Goods, Inwards “ To Pay.”
- (c) Telegraph traffic.
- (d) Sundries.

797. The postings in Part A are made from Station Balance Sheets. The Local and Foreign traffic entries are made against the station concerned in the columns for the various classes of traffic (Coaching, Goods, etc.).

798. Part B deals with the apportionment of all Foreign traffic and is posted from the Inwards Division Sheets and the Summary of the Outwards Division Sheets. The realisation on account of through traffic, comprising the proportions due to Home and Foreign Railways, are credited to the Suspense head “ Foreign traffic for apportionment ” in Part A and are distributed between the Home and Foreign Railways in Part B. It should of course be seen that the credits and debits balance each other and that the Suspense head is cleared.

799. Part C.—The opening balances in this Part are brought forward from the previous month’s Part C and the debits and credits to Foreign Railways and Private Companies are brought forward from Part B. The payments to and receipts from Foreign Railways and Companies, either in cash or by transfer, are posted from the Register of Accounts Current, and the balances worked out. The opening and closing balances, and debits and credits to Traffic Account, Account Office balance sheet, classified according to Heads of Accounts, are brought forward from the Account Office Balance Sheet. With the transfer to Part C of the totals of Part B, the postings in the latter are completed and the grand totals under Coaching, Goods, Telegraph, Sundries, Foreign Railways, Private Companies and Transfer transactions, etc., are taken to Part D from

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which the monthly Journal entry is prepared for incorporation in the General Books.

800. Part D.—The first portion of this Part is described in the previous paragraph. The other portions show the comparison between the balances under “ Traffic Account, Foreign Railways and Deposits Private Companies ” as brought out in the Traffic Book and the General Books. Differences should exist under Traffic Account only as the result of cash in transit, that is to say, station cash for which credit has been allowed to stations in one month but which has been received and included in the General Books in the next month. The balances in favour of or against each Foreign Railway are also detailed and compared with the corresponding balances in the T. A.-6 and T. A.-6A Registers.

801. *Travelling Inspectors of Accounts.*—The check exercised by the Chief Accounts Office is limited to an examination and comparison of the returns, etc., sent in by stations. In order to exercise a check at stations over the initial accounts which do not come under the scrutiny of the Accounts Office a special staff of Inspectors is maintained. These Inspectors are constantly moving along the line and are required to devote their attention to seeing that the books and records are kept in a proper manner, that the cash arrangements are in order, and that irregularities taken up receive prompt attention.

III.—STRUCTURE OF RAILWAY ACCOUNTS.

802. *Main Headings of Railway Accounts.*—The Accounts of Railways comprise :—

- (i) Account of net gain or loss on the working of State Railways as a whole ;
- (ii) Account (a) of Railway contribution to General Revenues, and (b) of amounts accruing to Railway Reserve Fund ;
- (iii) Capital Account ;
- (iv) Revenue Account ;
- (v) Account of Interest charges ;
- (vi) Depreciation Fund Account ;
- (vii) Railway Reserve Fund Account ;
- (viii) Account of Miscellaneous Railway Receipts ; and
- (ix) Account of Miscellaneous Railway expenditure.

These are explained in the following paragraphs. •

803. *Account of net gain or loss on the working of State Railways.*—This is the main account, and all other accounts work up to it. It brings together the capital at charge of each Railway which is financed by Government and the net revenue receipts of the year, and from these

deduces the percentage return on the capital at charge. The final net gain or loss to Government on the financial results of the year's working is then worked out for each Railway ; and lastly the final net gain for all Railways, and the contribution to General Revenues.

804. Account of Contribution to General Revenues, and of amounts accruing to Railway Reserve Fund.—This account sets out in detail the method of calculation adopted for arriving at the amount contributed to General Revenues, and to the Railway Reserve Fund, under the convention for the separation of Railway finances from General finances.

805. The main points in the constitution of this contribution and of the Reserve Fund are :—

- (a) The General Revenues receive a definite annual contribution from Railways, which is the first charge on the net receipts of Railways.
- (b) The contribution comprises a percentage on the capital at charge of Commercial Lines (excluding capital contributed by Companies and Indian States) at the end of the financial year next but one preceding, *plus* one-fifth of any surplus profits remaining after payment of this fixed return, subject to certain conditions in the event of Railway Revenues being insufficient to provide the percentage in any given year on the capital at charge. The interest on the capital at charge of, and the loss in working, Strategic Lines, are borne by General Revenues and are consequently deducted from the contribution so calculated in order to arrive at the amount payable from Railway to General Revenues each year.
- (c) Any surplus remaining after this payment to General Revenues is transferred to a Railway Reserve, subject to certain limitations if the amount available for transfer to the Railway Reserve exceeds in any one year three crores of rupees.

806. Capital Account.—This account sets out in detail the capital expended on the construction of Railways from funds provided in the Railway Programme, whether on the direct responsibility of Government or against capital contributed by Companies and Indian States, and to this is added the expenditure separately met from General Revenues, working to the total construction expenditure on Railways. Finally it deduces the capital at charge of each Railway, on which the percentage of the return of net Revenue Receipts is calculated. The Account of capital at charge is brought up to date every year by the inclusion of actual expenditure incurred against the year's programme of capital expenditure.

CHAP. 32.] ACCOUNTING AND AUDIT OF RAILWAY RECEIPTS [807-812'
AND EXPENDITURE.

807. Revenue Account.—This account shows in detail the gross Revenue Receipts, Working Expenses and Net Revenue Receipts. The main sources of revenue have already been indicated in this Chapter. The working expenses comprise all expenses not chargeable to Capital Account ; and include the total figure of interest on Capital outlay as worked out in the Interest Account. The contribution from Railway Revenue to the Depreciation Fund, and the expenditure incurred from that Fund on renewals and replacements, are exhibited separately under Working Expenses. The latter, as an appropriation from the Depreciation Fund, is deducted to bring out the final charges to working expenses on account of depreciation during the year.

808. The difference between Gross Revenue and Working Expenses represents the net revenue.

809. Account of Interest Charges.—This Account bears the liability for interest, etc., on the entire capital at charge of Railways. It shows :—

- (i) The interest on debt, that is, on specific loans raised by the Government of India or the Secretary of State, and on the outlay that has been met from non-specific debt or from Revenue or from other sources ; and
- (ii) The interest on Share Capital and Debentures contributed by the Working Companies.

The total amount under this account is finally charged to the Railway Revenue Account as explained in paragraph 807.

810. Depreciation Fund Account.—On the separation of Railway from General Finances, a Depreciation Fund was started with effect from 1st April 1924, to provide for the cost of renewing certain units of wasting assets. The Depreciation Fund Account sets forth the amount received into and withdrawn from the Depreciation Fund during the year, and also brings out the balance in this Fund at the close of the year. (See also paragraph 807.)

811. Reserve Fund Account.—This Account sets forth the amounts received into, and withdrawn from, the Reserve Fund during the year, and also brings out the balance in this Fund at the close of the year. The receipts are obtained in the manner explained in paragraph 305 above. Amounts may be withdrawn from this Fund in the event of current net revenues being insufficient for the payment of the annual contribution to General Revenues ; to provide, if necessary, for arrears of depreciation and for writing down and writing off of capital ; and to strengthen the financial position of Railways in order that the service rendered to the public may be improved and rates and fares may be reduced.

812. The Railway Reserve may also be used for temporary borrowings for the purpose of meeting expenditure for which there is no provision or

**813-818] ACCOUNTING AND AUDIT OF RAILWAY RECEIPTS [CHAP. 32.
AND EXPENDITURE.**

insufficient provision in the Revenue Budget estimates, subject to the obligation to make repayment of such borrowings out of the revenue budgets of subsequent years.

813. Account of Miscellaneous Receipts.—This account sets forth the interest accruing on the balances of the Railway depreciation and Revenue Funds and other Miscellaneous receipts which cannot be allocated to specified Railways.

814. Account of Miscellaneous Expenditure.—This account sets forth the expenditure incurred by Government on certain items which cannot be allocated to specific Railways, such as outlay on surveys which will be transferred to the capital account on the line being constructed ; and the net cost of the control exercised by Government over Companies through the Railway Board, the Director of Railway Accounts, etc., as reduced by recoveries made from the Companies in respect of the same.

**IV.—RELATION BETWEEN GOVERNMENT AND COMPANIES
WORKING STATE RAILWAYS.**

815. Original Contracts.—We have so far considered the Accounting, internal test check, and audit of the transactions of State-managed Railways. It now remains to consider those State-owned Railways which are worked by Companies, and their relation with Government.

816. The first Railways built in India were constructed and worked by Companies under a firm guarantee from the Secretary of State of 5 per cent. on the Capital and a fixed rate of exchange. In return he was to take a half share in the surplus profits.

817. The guaranteed interest and rate of exchange resulted in considerable losses to Government. Advantage was accordingly taken of the provisions of the contracts under which these lines could be purchased, either by cash payment or by means of annuities terminable after a number of years, and all such Railways are now the property of the State. Some of the purchased lines are being worked by direct State agency ; while the management of the others has been entrusted to working Companies constituted under contracts the conditions of which are much more favourable to Government than those made with the earlier Companies. The position of Government with respect to these Companies is that Government are the owners and lessors of the lines, and the Companies are the working agents or lessees.

818. Existing contracts.—The broad features of the contracts concluded with such Companies are :—

- (i) That the Company shall have a small amount of share capital in the concern, on which interest at rates varying from 2 to 3½ per cent. is guaranteed by the Secretary of State out of the revenues of India.

CHAP. 32.] ACCOUNTING AND AUDIT OF RAILWAY RECEIPTS [819-821
AND EXPENDITURE.

- (ii) That the Company shall receive a share of the surplus profits earned by the Railway after meeting all payments for interest on the Capital at charge, such share being based either on some fixed proportion, or on the amount of Capital contributed by Government and the Company, respectively.
- (iii) That all sterling transactions shall be taken to account in rupees at a definite rate of exchange.
- (iv) That the Company shall keep the undertaking, its rolling stock, etc., in thorough repair, and in good working condition, to the satisfaction of the Secretary of State.
- (v) That on the determination of the contract Government will repay to the working Company the amount of its share capital at par.

819. *Points on which Government have to protect their interests.*— These conditions govern the nature of the control to be exercised by Government over the operations of such Companies. The Government, in addition to their interest in the correct division of profits, are concerned to see that the property, of which they are the owners, is kept in good condition and repair, and that all fresh capital put into the line is profitably and economically spent. The Companies, on the other hand, are concerned merely in making the most of the Railway as a dividend earning investment during the limited period of their tenure.

820. A close check and supervision is accordingly required on behalf of Government in the following directions :—

- (a) To ensure the proper upkeep and maintenance of the Railway, so that, on determination of the contract, it may be handed back in as good condition as when it was made over to the Company.
- (b) To examine all proposals for fresh expenditure of capital, and to check any tendency to extravagance in that direction.
- (c) To watch the proper application of funds to Capital purposes for improvements, and to Revenue purposes for upkeep and maintenance.
- (d) To verify the correctness of accounts and of the division of profits.

821. The first of these checks is exercised through the Government Inspector, whose duty it is to carry out a periodical inspection of the permanent way, works, rolling stock, etc., and to certify at the close of each half year that the undertaking has been kept in thorough repair, and in good working condition. Such an inspection is primarily required in the interests of the public safety under the Railways Act, but the

certificate then given also serves the purpose of the clauses in the contracts relative to the maintenance and upkeep of the undertaking.

822. The second check is exercised through the examination of estimates, to ensure that sanctions have been accorded by the competent authority.

823. *Duties of Government Examiners.*—The third and fourth checks are exercised primarily by the Government Examiners of Railway Accounts. (See paragraph 732.) The sphere of Government Examiners' duties was strictly limited from the year 1915, when a considerable reduction in the scope of Government Examiners' functions was effected by requiring them to restrict their activities as much as possible to those points at which the interests of the Government diverged from, or were antagonistic to, those of Companies.

824. Little or no irregularity of a serious character was thus brought to light in the case of the Company-managed Lines. Indeed, this was only to be expected in view of the fact that Company Auditors are not allowed to exercise higher audit functions, or (as it has been expressed) "to criticize the administration to which they are subordinate". This became noticeable in recent years, and it was felt that the time had come for an enlargement of the scope of statutory audit in those offices.

825. An extended audit was then applied to certain Company-managed Lines as an experimental measure, and the results fully established the necessity of extensive audit on behalf of the Secretary of State, and the incorrectness of the assumption that, where the interests of the Companies and those of Government coincided, the internal check might be left almost entirely to the Companies' Auditors.

826. The principal feature of the extended audit by the Government Examiners has been the provision of a minimum amount of continuous test check at headquarters and at all workshops and stores depôts, and more close attention to the inspection on the spot of initial records and documents in the offices in which the expenditure originated; or in other words a considerable extension of local audit, accompanied by a reduction of central audit. The system has since been extended to all the Company-managed Lines.

827. The Government Examiners are still especially required to watch the interests of Government where such interests are divergent from those of the Companies. This applies in particular to the correct allocation of expenditure between Capital and Revenue, on which too much stress cannot be laid, since improper loading of the capital account means that the Company gets an advantage on the Revenue side at the expense of a permanent burden cast upon Government. Again, it sometimes happens that there may be a conflict of opinion between the Government Examiner and the Company's officers, as to the interpretation of some

clause in the contract which is obscurely worded. In all these matters he is the immediate representative of Government, who have to rely largely upon him for the due safeguarding of their interests. Thus his task is a very responsible one.

V.—RELATION BETWEEN GOVERNMENT AND PRIVATE COMPANIES.

828. *Branch Line Companies.*—A similar but less stringent audit control is exercised by Government over the transactions of Branch Line Companies, which are privately owned. These transactions do not pass through the Government accounts at all ; but Government is indirectly interested to the extent of the guarantee of interest on rebate, a share in the surplus profits, and a right to purchase the line on expiry of the period for which the contract is to run. The audit on behalf of Government is therefore confined to a periodical test of the Company's accounts, and a scrutiny of all estimates for Capital expenditure.

(d) Payment for telegrams is made nearly always by stamps, except in places where National Cash Register Machines are installed; and the same kinds of stamps are affixed both to telegrams and to letters. The stamps are issued from treasuries as postal stamps; and, apart from the portion creditable to local Governments (as explained in paragraph 830), it is impossible to maintain an accurate account of the use of such stamps as between postal and telegraph work. Thus Revenue obtained from the sale of such stamps is credited, in the first place, to the Postal Branch; and, in order to work out the amount of Stamp Revenue which ought to be transferred from the accounts of the Postal to those of the Telegraph Branch in respect of such stamps, the Check Office estimates the message revenue for the year from an actual count of the value of the messages despatched for two selected weeks for each half-year as indicated by the stamps affixed to them.

(e) Telephone systems are expanding rapidly; and, in order to work out the financial result of each telephone system, a detailed Profit and Loss Account is maintained in the Audit Office. The Branch Audit Offices conduct the audit of telephone revenue appearing in the accounts of Divisional Engineers and of Telephone Revenue Account Officers, and in addition undertake local inspections of Revenue Accounting offices. But the most important audit of the telephone revenue accounts of Call offices, Divisional offices, Exchanges, and Revenue Accounting offices, is that conducted locally by Inspectors of Telephone Accounts working under the orders of the Deputy Accountants General.

(f) Some private companies have been permitted by the Government of India to establish and maintain telephone communications in certain big cities in India and Burma. These companies pay to the Government royalty at a fixed rate on the revenue, and a test check is conducted at the Companies' offices by the Branch Audit Office, to see that the royalty has been correctly calculated.

(g) The Stores Branch of the Audit office at Calcutta deals with the account and audit of the receipts and expenditure of the Indo-European Telegraph Department which is under the administrative control of the Director-in-Chief, India Office, London, acting under orders of the Secretary of State for India in Council.

(h) It also deals with the account and audit of stores and workshops.

(B) POSTAL BRANCH.

837. Receipts on account of premia for Postal Life Insurance Policies are checked in a special branch of the office of the Deputy Accountant General, Posts and Telegraphs, Calcutta. Audit is responsible for

846. After the transactions affecting the accounts in any series of ledger cards have been posted, the total amounts for deposits and withdrawals are transferred to a master card, of which one is maintained for each series. When all the transactions of a Head Post Office, including its subordinate offices, are posted completely in the ledger cards and abstracted in the master cards, the totals of the amounts appearing in the latter give the grand total of all Savings Bank transactions of that office and are agreed with the corresponding amounts appearing in the Savings Bank journal.

847. *Agreement with the Detail Book.*—A preliminary comparison is made between the amount appearing in the journal and in the Cash Account, and a final reconciliation between the total amounts of the ledger cards and the amounts appearing in the detail Book is made through a system of Control Accounts, of which one is maintained for each Head Post Office.

848. *Audit.*—The journals of Savings' Bank transactions received from the Post Offices are checked to see that the transactions are covered by rules and orders issued by competent authority, that vouchers or other documents have been submitted for every entry appearing in the journals, and that the vouchers have been prepared according to rule and constitute genuine evidence of the transactions having occurred as detailed in the accounts.

849. *Annual Closing.*—A statement of interest and closing balances on the 31st March is prepared annually from the ledger cards. To facilitate agreement a separate statement is prepared and totalled for each series of ledger cards. The correctness of the total closing balance of each series is verified by working it out independently from the figures for the opening balance of the year and the transactions of the series as recorded in the monthly master cards. This work of annual agreement is of great importance as it secures the correctness of the accounts of individual depositors.

850. *Triennial Examination of Ledger Cards.*—At the end of every three years the ledger cards are examined, and the accounts in respect of which there have been no transactions from the beginning of the immediately preceding financial year are transferred to a register known as the Dormant ledger. Of these accounts, those which show no transactions for the past three years are classed as Dead and notified as such to the Postmasters. No deposit or withdrawal is permissible in the case of a Dead account unless its reopening is formally sanctioned by the Postmaster. A dormant account, if a transaction relating to it appears in the journal within three years, is retransferred to a ledger card.

851. *Government Securities.*—To facilitate the investment of Savings Bank deposits in Government Securities, the Indian Post Office, acting as agent to the Government of India, undertakes the purchase, sale and safe custody of securities on behalf of Savings Bank Depositors. The Accountant General, Posts and Telegraphs, exercises on behalf of the Auditor General in India the same authority in respect of the audit of Government Security transactions as in the case of Savings Bank transactions. The audit and accounts work in connection with Government Securities is conducted in the office of the Deputy Accountant General, Posts and Telegraphs, Calcutta.

852. *Cash Certificate transactions.*—The transactions relating to Cash Certificates are entered in the Cash Account under a separate head and accounted for by a special procedure. The Audit Office maintains a Stock and Issue Register of cash certificates by denominations in respect of each Head Office. On receipt of the duplicate copy of the invoice for supply of cash certificates to the Post Office, the serial number of each cash certificate is entered separately in the register. From the weekly lists, received from the Post Office, of cash certificates issued and discharged, the week of issue or discharge as the case may be is posted against the particular number appearing in the register. The issues and discharges as posted in the register are then compiled in monthly proof sheets and the figures agreed with those shown in the Head Office balance sheet in which the monthly transactions of Head Offices are entered in lump.

853. Audit consists in seeing that details of the lists of cash certificates issued and discharged, received weekly from each head office, work up to the totals entered in the monthly cash accounts, that all discharges are supported by vouchers, that the amount payable on discharge has been correctly calculated with reference to the date of issue, and that the issue registers show that the cash certificates were not previously discharged.

854. The balances of cash certificates issued but remaining undischarged on the 31st March of each year, as shown in the balance sheet for each head office, are verified with the actual outstandings in the issue and safe custody registers, and all differences reconciled.

855. *Accounts—General.*—The finances of the Indian Posts and Telegraphs Department form part of the general finances of the Government of India. It is however a Commercial department in the sense that it is expected to meet its liabilities from its own revenues. The net profit or loss of the year, after meeting all liabilities, merges in the general balance of the Central Government. The department is allowed a rebate of interest charges in respect of any surplus that it may earn, after meeting all charges. On the other hand it has to pay interest to general

859. Accurate numerical records of all capital assets are maintained by the executive, and the Audit Office also maintains a series of financial registers connected with the Capital Account.

860. Depreciation Fund Account.—The Depreciation Fund Account for the renewals and replacements of wasting assets is included in Section “P—Deposits and Advances” of the Government Account. Credits to this Fund are made in accordance with the Sinking Fund principle, and comprise the annual provisions set apart from the Revenues of the Department and interest accruing on its balances. The debits consist of the appropriations made to meet the cost of making good depreciation of assets.

861. Revenue Account.—Revenue realisation and revenue expenditure (other than interest charges) of the Indian Posts and Telegraphs Department are booked under the major head “XV—Posts and Telegraphs” which is divided into a series of abstracts and sub-divided into a number of detailed heads. The portion of the capital expenditure chargeable in the Revenue Section of the accounts is explained in paragraph 857 above. It is important to note that a large amount of revenue expenditure of the Department relates jointly to two or, in common, to all the three branches, namely (i) Post Office, (ii) Telegraphs including Radio, and (iii) Telephones. The arrangement of the account is such that receipts or expenditure relating solely to one branch are exhibited separately, while those relating to more than one branch are isolated for subsequent apportionment between the branches concerned.

862. The revenue account bears charges on account of contributions to cover depreciation and pensionary liability in respect of the employees of the Department.

863. Interest Charges.—The interest on capital at charge of the department is recorded under the major head “17—Posts and Telegraphs—Interest on Capital Outlay”.

864. Profit and Loss Account.—In order to show in a concise form whether the working of the department shows a Commercial gain or loss, the Profit and Loss Account of the department is prepared annually taking into account the gross Receipts and Working Expenses and also inter-branch adjustments, interest on capital outlay, etc. It shows the results separately for the different branches, namely (i) Post Office, (ii) Telegraphs including Radio, and (iii) Telephones. With effect from the accounts for 1929-30 the Profit and Loss Account of the non-commercial activities of the Radio Branch are to be exhibited separately.

865. Indo-European Telegraph Department.—The Indo-European Telegraph Department is concerned with traffic passing through lines and Offices situated in foreign territory, and performs two independent functions. It controls the system which links up the Indian Telegraphs with the European system, and is also responsible for part of the internal

telegraphic communications in Persia. Its system of telegraphic lines is divided into two portions, called the Persian Gulf Section and the Persian Section, each under a Director stationed at Karachi and Teheran respectively. The head of the Department, the Director-in-Chief, is stationed in London and works under the direct control of His Majesty's Secretary of State for India.

866. The receipts of this department are of three classes—(a) the receipts from local traffic over the departmentally-owned cables in the Persian Gulf and lines in India ; (b) the share of foreign traffic from Persia to Europe ; and (c) the receipts in consequence of the Joint Purse division of total receipts of the Indo-European Telegraph Department, the Indo-European Telegraph Company and the Eastern Telegraph Company, from foreign traffic between India and Europe. All receipts from local traffic in Persia are paid over to the Persian Government. By far the most important item in the income of the department is that mentioned against item (c) above.

867. The expenditure on the working expenses of the Department is similar to that of the Telegraphs Branch of the Indian Posts and Telegraphs Department, but the position is complicated by the fact that the Department maintains and uses under various agreements some lines which are the property of the Persian Government.

868. A further charge on revenue is the annual debit of a fixed sum as amortisation of the part of the capital expenditure included in the capital account of the Department either because it is irrecoverable from Persia or because it will cease to yield revenue after 1945 when the present agreement with Persia will cease.

869. The accounts of this department also are maintained on the lines explained in paragraphs 855 to 864 above.

CHAPTER 34.

Commercial Accounting and Auditing, as applied to Government Concerns.

870. Policy of Government.—The policy of the Government of India and of Provincial Governments in regard to their commercial enterprises is in the majority of cases not the earning of a profit. Many commercial undertakings are started to ascertain whether the articles proposed to be manufactured can be manufactured in India and turned out at a price which would compare favourably with imported articles of a similar type. Other concerns are in the nature of service departments which distribute their outturn at cost to Government departments.

871. The majority of Government commercial enterprises are manufacturing undertakings. They purchase raw materials for conversion, after perhaps going through many processes, into finished articles for issue to other Government Departments or for sale to the public. The raw materials differ so much in form that no stereotyped system of accounting can be laid down as being applicable to all cases.

872. Initiation of commercial accounts.—The responsibility for the introduction of a commercial accounting system rests with the Finance Department of the Central or Provincial Government. When such action is proposed, whether on the advice of the Accountant General or otherwise, the Director of Commercial Audit is usually consulted.

873. An accounting system to be of the greatest use must be framed in such a manner as will provide the management of these concerns with information as to the details of the transactions of the concerns as well as upon the results of the operations. Such information will be of primary value to the administration.

874. General Principles of Accounting.—Commercial accounting is the art of recording in books of account correctly and in a regular and systematic manner transactions relating to cash and stores.

875. The objects are :—

- (i) to have permanent records of all transactions, and
- (ii) to show the effect of each transaction and the combined effect of all transactions upon the financial position of a commercial concern.

876. The General Ledger is the most important book in commercial accounting. Portions of the ledger called the Cash Book and Day Book are almost invariably bound up in separate books for the sake of

convenience, though the totals of the accounts in these books are brought into the accounts in the ledger proper. The whole of a concern's transactions are entered from the books of original entry, namely Day Books and Journals, into the Ledger, but in a summarised and classified form. The Ledger is further sub-divided into :—

- (a) Creditors' ledger, recording the transactions of the concern with its creditors for purchases ;
- (b) Debtors' ledger, recording the transactions of the concern with its debtors for sales ;
- (c) General Ledger, containing accounts recording fixed and floating assets such as buildings, plant and machinery, fixtures, etc., liabilities, reserves, control accounts and accounts recording profits or losses, working and overhead expenses, and other items of income and expenditure.

877. At the end of every trading period a Trial Balance is prepared. This consists of a classified list of balances appearing, at a given date, in the ledger or ledgers before the closing entries have been made. In extracting this list of ledger balances the debit and credit balances are separated by being placed in their different and appropriate columns.

878. From this Trial Balance the Manufacturing, Trading and Profit and Loss Accounts, and Balance Sheet, are prepared.

879. A Manufacturing Account is an account drawn up to ascertain the cost of manufacture and deals with :—

- (i) Cost of raw materials ;
- (ii) Cost of bringing these materials to the factory ;
- (iii) Cost of labour employed in converting these materials into finished goods ;
- (iv) Expenses such as rent, rates and upkeep of factory ;
- (v) Repairs to, upkeep of, and depreciation on, buildings, plant and machinery ;
- (vi) Motive power.

Items (i) to (iii) represent prime cost of production.

Items (iv) to (vi) represent Works on-cost.

880. A Trading Account is a statement of account prepared for the purpose of showing what is the gross profit realised on goods sold after charging the cost of rendering such goods marketable, such cost consisting of production and distribution expenses. Goods produced are transferred from the Manufacturing Account to the Trading Account at

cost, the theory being that production exists solely for the benefit of sales and that the selling department therefore takes over the factory output at actual cost price.

881. A Profit, and Loss Account is a statement designed to show the amount of net profit earned. This account is credited with the gross profit carried from the trading account, *plus* items of revenue such as interest, commission and cash discount earned, and is debited with general administration and office charges, *plus* interest on capital.

882. A Balance Sheet is a classified summary of the debit and the credit balances remaining in the ledgers after the Manufacturing and Trading and Profit and Loss Accounts have been prepared. On one side it contains the assets of the concern, and on the other the liabilities, capital, reserves and the balance, if any, at the credit of Profit and Loss Account. Assets and Liabilities are usually stated in the Balance Sheet in the order of permanence, the fixed assets and liabilities taking precedence over the floating assets and liabilities.

883. In addition to the records mentioned above, it is necessary for every manufacturing concern to maintain Labour records, Stores accounts and Cost accounts.

884. *Relation between Government Commercial and General Accounts.*—In those cases where the detailed accounts of Government concerns are maintained commercially, the details of the transactions do not in all cases appear in the regular Government accounts. In the case of those concerns which work under the rules in Chapter II of the Account Code, *pro forma* accounts are maintained outside the regular Government accounts, and the particulars taken from these *pro forma* accounts to the regular accounts are determined by rule. In the case of other concerns, it is determined in each case what details of the transactions and workings shall appear in the regular accounts.

885. *Commercial Audit.*—Under Rule 9 (ii) of the Auditor General's Rules, the Auditor General is responsible for the efficiency of the audit of expenditure in India from the revenues of India, but he is responsible for the audit of receipts only when he is required by the Governor General in Council to undertake it under Rule 12 of the Auditor General's Rules. In the case of Government commercial concerns the Auditor General exercises his statutory responsibility through the Director of Commercial Audit.

886. The duties of a commercial auditor commence when those of the accountant have been completed. The accountant and his staff write up the books of account and prepare therefrom the half-yearly or annual statements known as the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, which are eventually placed before

the auditor. In cases where the accountant is not competent to perform this work the auditor is usually called in to render assistance; but the auditor's work in assisting the accountant is quite distinct from his duty as auditor. It is impossible to lay down rules or regulations which are applicable without exception to all audits; and auditors must, therefore, use their own judgment whether the general rules given in text books are applicable to the audit in which they are engaged.

887. An auditor has frequently to accept the results of what is known as 'Internal Control'. The following are examples of what are known as internal checks:—A periodical examination by the Superintendent of a concern of the cash book, vouchers or petty cash vouchers, including the additions of the cash book and petty cash book, and the balancing of the cash book periodically with the bank or treasury pass book; a periodical examination of the debtors' accounts; the calling over of the postings of the Day Books and Journal into ledgers by clerks who have no duties connected with the writing up of these books and the posting of them into ledger accounts; a system of continuous stock verification; or the checking of pay rolls by clerks who are in no way connected with the preparation of the rolls.

888. It is an important part of an auditor's duty to scrutinise the system of internal control to see that it is adequate in itself and as independent in character as circumstances permit, and to assure himself that the system is being applied efficiently. The extent of the scrutiny to be applied should depend on the adequacy of the system of internal control and on the completeness and accuracy with which it is being applied.

889. *Allocation of responsibility between the Accountants General and the Director of Commercial Audit.*—In cases in which the civil Accountant General and the Director of Commercial Audit both participate in the audit of accounts, the responsibility of each of these officers is determined by the application of the following two main principles:—

- (i) Duplication of work should be reduced to a minimum; and
- (ii) The audit work should be so distributed between the Civil Accountants General and the Director of Commercial Audit that each undertakes that which he is best suited to perform.

890. *Use of Manuals and Text Books.*—The subject of commercial accounting and auditing is so vast that it is impracticable to deal further with the subject in this Manual; and for a detailed study of the subject a reference should be made to the Manual of the Commercial Audit Branch of the Indian Audit Department, and to the various recognised text books.

CHAPTER 35.

Test Audit and Inspection.

891. *Objects of Inspections.*—Test audit and inspection undertaken by Audit fall under two main headings :—

- (A) Local inspection to assure a Principal Auditor that the original data, on which the accounts and his audit work rest, are accurate, and to apply a test check to such of the vouchers and documents as are not audited centrally ; and
- (B) Local inspection to conduct a test audit of accounts falling under Rule 12 of the Auditor General's Rules.

The necessity for undertaking inspections, and the procedure followed in such inspections, are explained briefly below.

(A) INSPECTION TO TEST THE ACCURACY OF ORIGINAL RECORDS.

892. *Necessity for Inspection.*—It has been explained in Chapter 10 above :—

- (i) that the accounts and supporting documents submitted for audit consist partly of the original records and partly of copies of the original records ; and
- (ii) that the audit conducted in a Central Office is largely dependent for its efficiency on the degree of care exercised by departmental officers over the accuracy of the original records from which the public account is built up.

893. In order (i) to review such original records as are not received by audit, and (ii) to test the degree of care exercised by departmental authorities over the accuracy of such records and to see that they are properly maintained in the prescribed forms, audit undertakes to inspect them, periodically. Opportunity is also taken at this time to apply a test audit to such accounts, vouchers, etc., as are not audited centrally or cannot be checked completely except at a local audit.

894. Offices coming under this class of inspection are Treasuries, Public Works Divisions, Post and Telegraph Offices, etc. Part of the work of the Outside Audit Department of an Accountant General's Office (which is treated under heading (B) in this Chapter) also fall strictly under the present heading (A).

895. Inspection of Treasuries.*—Briefly the inspection of treasuries by the Accountant General is conducted as follows :—

- (i) The procedure observed in the examination of claims for payments of all kinds is examined to see whether the various prescribed checks are exercised strictly and with intelligence, whether the prescribed registers are properly maintained, and whether the Treasury Officer himself exercises the necessary checks for which the rules hold him responsible. At treasuries which bank with a local head office or branch of the Imperial Bank of India, it is seen that the procedure prescribed for observance by the Treasury Officer is followed correctly.
- (ii) It should also be seen—
 - (a) that arrangements for handling cash and other vouchers and stocks of forms of bills, cheques and Public Works receipt books, are strictly in accordance with rules ; and
 - (b) that the arrangements for dealing with tenders of money and claimants for payments are businesslike.

896. If, under the orders of the Auditor General, the central audit of any class of vouchers paid at treasuries is relaxed and a test audit on the spot has been prescribed, this is conducted at the inspection. For this purpose, the original vouchers and other accounts documents requiring examination or verification are brought from the Audit Office, and the check of these documents, previously exercised by the Treasury Officer, is completely reviewed.

897. The scope of the inspection of treasuries is extended to see, on behalf of the Controller of the Currency, (i) that the orders issued under Rule 16 of the Devolution Rules regarding the custody and handling of treasure and the control of the balances are duly observed, (ii) that the standing orders of the Controller of the Currency relating to coins, currency, and remittances of treasure are clearly understood by the Treasury Officer and his staff, and duly observed in practice, and (iii) that the registers and forms prescribed for recording the receipt and disposal of Securities are correctly maintained.

898. Inspection of Public Works Divisions.—The procedure followed for the conduct of inspection and test audit of the accounts of Public Works Divisions is briefly as follows :—

- (i) The accounts of one month are test audited with the initial accounts, and other account records kept in the divisional office, detailed estimates and contract agreements.

*NOTE.—See also Chapter 9 on the subject.

- (ii) The initial accounts of cash and stock, the measurement books, muster rolls, detailed accounts of works, transfer entry books, contractors' ledgers, and other account records for the entire period since the last inspection, are inspected and examined generally.
- (iii) The accounts of one or two selected works are examined in detail from the commencement, and all transactions are analysed, and, if necessary, compared with the details of sanctioned estimates, and with contract agreements, measurement books, accounts of stores, vouchers and other relevant documents.
- (iv) The results of the Divisional Accountant's inspection of sub-divisional offices, objections recorded in the Register of Divisional Accountant's Audit Objections, and generally the results of the Divisional Accountant's scrutiny as a primary auditor, are reviewed.

899. In some provinces the accounts of rents and of stock and tools and plant are not submitted to the Audit office. In such cases these accounts are also test checked at the inspection.

900. The inspecting officer does not confine his attention to the audit and inspection work detailed above. He avails himself of the opportunity of assisting the officers of the Public Works Department with his advice in matters affecting the accounts or the financial regularity of transactions. He also finds scope for making valuable suggestions to the Accountant General in the direction of economy of the public money.

901. *Inspection of Posts and Telegraphs Offices.*—The Deputy Accountants General in charge of Branch Audit Offices undertake a periodical inspection and test audit of the accounts of all disbursing officers under their respective jurisdiction. The inspection is conducted mainly to see that original accounts and papers represent facts, and that audit rules and requirements (specially in the matter of retrenchments) are carried out. To this end one month's accounts selected by the Deputy Accountant General are test audited, but the cash book is examined generally in all its details in respect of the entire period which has elapsed since the last inspection.

902. The procedure prescribed in paragraph 896 above regarding the test audit locally of certain classes of vouchers is also followed by the inspection staff of this department.

903. While inspecting Telegraph Engineering Divisions the inspecting Officer has to analyse completely and examine the accounts, since the commencement, of any one major work or two minor works selected by

the Deputy Accountant General. For this purpose the inspecting officer takes with him the schedule dockets and vouchers relating to such works.

(B) TEST AUDIT OF ACCOUNTS FALLING UNDER RULE 12 OF THE
AUDITOR GENERAL'S RULES.

904. *Necessity for inspection.*—The main purpose of the inspection by Audit of offices falling under paragraph 891 (B) above is to conduct a test check of the accounts for a particular period, in the discharge of the responsibility imposed on the Auditor General under Rule 12 of the Auditor General's Rules.

905. Test audit by the Outside Audit Department of an Accountant General's office, and test audit by the Examiners of Customs, Accounts and of Government Presses, come under this category.

906. *Inspection by the Outside Audit Department.*—The Accountant General undertakes locally the audit of the initial accounts maintained in many Government institutions and offices in cases in which central audit is not feasible. For this purpose he has under him peripatetic parties which travel about the country and conduct test audit. The Province is divided into circles, one circle being allotted to each Inspecting party. Each party is in charge of an accountant who is responsible for the test audit of the accounts in the circle allotted to him.

907. The classes of accounts with which this staff deals are so varied that, before taking up an inspection, the inspection staff has to study the system of accounts and books prescribed, to see why they have been prescribed, and how far they fulfil the desired end.

908. A study of Appendix 14 of the Audit Code will show that a large number of the audits conducted by the outside Audit Department fall under Rule 12 of the Auditor General's Rules; but it should be noted that the same staff is employed also on audits falling under heading (A) of this Chapter.

909. *Inspection by the Examiner of Government Press Accounts.*—The Examiner of Government Press Accounts is responsible for the audit of the accounts of the Government Presses, Stationery Offices in Calcutta, Madras, Bombay, Bankipore, Rangoon and Peshawar, and Books Depôts (except Bengal).

910. Each of the audit parties under him is in charge of a senior Auditor assisted by Junior Auditors. Test audit is applied to the accounts of any one month selected by the Senior Auditor.

911. The audit of Press Accounts involves the following items of work which are peculiar to this branch of audit and are additional to those of an account office in the ordinary line :—

- (i) System of Cost Accounting ;
- (ii) Overtime and attendant audit ;
- (iii) Price audit ;
- (iv) Audit of outside printing work ;
- (v) Audit of annual accounts of Presses including *pro forma* and Depreciation Fund Accounts.

912. The audit of items (i) to (iv) requires a special knowledge of the working of the different branches of Presses in all their details. The store accounts also have special features and their audit requires corresponding special knowledge. The practical methods employed in the different Government Presses vary in some respects according to the view of the Superintendent in charge, and these have to be studied with reference to the varying local conditions. The Manuals of the various local Presses also have to be studied as these lay down the system of working, the rates of payment for the different classes of work, and the methods of commutation of the value of the several items of work.

913. *Test Audit by the Examiner of Customs Accounts.*—Whereas the audit of expenditure of Custom Houses is conducted by the local Accountant General that of receipts, which under Rule 12 of the Auditor General's Rules has been entrusted to the Audit Department, is carried out by the Examiner of Customs Accounts.

914. The Examiner visits each of the major ports once in two years, and conducts on the spot a statutory test audit of receipts. This test audit comprises a check on a percentage of the various classes of receipts including refunds and drawbacks, an examination of the procedure intended to safeguard the revenue, and a review of the concurrent audit done by the local Audit Branch under the Collector of Customs. A report is made to the Central Board of Revenue on the results of the test audit of each Custom House.

915. The above procedure does not, however, apply to the Calcutta Custom House. As an experiment in connection with the Separation of Accounts from Audit, a Pay and Accounts Office has been constituted in that Custom House. The audit of expenditure, as well as the test audit of receipts, is conducted there by the Assistant Examiner of Customs Accounts who works under the supervision of the Examiner. His test audit of receipts is on the same lines as those adopted by the Examiner, but it is done concurrently and embraces a greater percentage of the receipts. The results of the audit are communicated through notes and

objection memoranda, and any points on which the Examiner and the Collector of Customs fail to agree are reported to the Central Board of Revenue for orders.

916. The test audit conducted by the Examiner of Customs Accounts is of a technical nature, and the staff has to acquire an adequate knowledge of the Sea Customs Act, of the important cases decided thereunder, of the rulings of the Government of India and of the Central Board of Revenue, and of the procedure, both executive and office, in Custom Houses, as well as some knowledge of trade and commercial practice.

CHAPTER 36.

Separation of Accounts from Audit in Theory and Practice.

917. *Separation in its relation to Audit.*—It was explained in paragraph 65 that the separation of Accounts from Audit was advocated on two main grounds. That relating to the requirements of financial control was treated in Chapter 4.

918. The main features of the procedure, where the work of Accounting and Auditing are still combined, have been described in Parts II and III and in the preceding Chapters of Part IV. Having now studied the main principles and methods of Audit, we are in a better position to consider in this Chapter the arguments for and against Separation from the Audit point of view. Before considering these, it is desirable to give a brief outline of the general principles under which work is conducted in the separated Accounts Offices.

919. *Working arrangements.*—The arrangements described below are given mainly in the form which the Separation Scheme takes in a Governor's Province; but the same general principles apply to Central Departments also.

- (a) To each large Department and to each Group of smaller Departments is attached a Pay and Accounts Office, the head of which is a Gazetted Officer entitled the Pay and Accounts Officer.
- (b) These offices are placed, as far as possible, in or within easy reach of the office of the head of the Department concerned.
- (c) Bills for payments debitable to the Department, instead of being presented at the Treasury, are sent to the Pay and Accounts Officer who scrutinises them before paying the amounts by cheques, at the same time debiting the charges in the accounts of the Department. The Treasury then becomes merely a counter for the receipt and payment of money.
- (d) The original compilation of the accounts of each Department is made by its own Pay and Accounts Officers, and the compilation of the accounts of the whole province is carried out in a Central Accounts Office under an Officer who is the immediate superior of the Pay and Accounts Officers, this Officer in turn being directly subordinate to the Finance Department of the local Government.

- (e) The Budget and the Revised Estimates of each Department are prepared by the Pay and Accounts Officer of that Department, and are then sent to the Finance Department which is responsible for their check and final acceptance and for the preparation of the Demands for Grants.
- (f) The Statutory audit of these accounts is carried out under the control of the Auditor General by an officer of the status of an Accountant General (designated the Director of Audit) and a gazetted and a non-gazetted staff working under him. The audit is carried out partly in the Pay and Accounts Offices and partly by local inspection of the subordinate Executive Offices.

920. Arguments against Separation.—The arguments against a separation and in favour of the retention of the combined system may be summarised as follows :—

- (a) The system of scrutiny before payment described in paragraph 919(c) cannot be universally applied. For example, in the case of contingent expenditure, such scrutiny must generally be limited to a check of lump sum imprests paid to local officers ; and in the case of the Public Works Department and of certain Central Departments (as for example the field parties of the Survey of India) there are difficulties in enforcing scrutiny before payment except where the unit whose bills require payment is centralised in a limited area.
- (b) The compilation of accounts in an Accountant General's office could be, and in fact has been, speeded up in such a way that figures of progressive expenditure can often be ready for use within a few weeks of the date of payment, and this would be sufficient for the greater part of the year.
- (c) The system of separation must inevitably involve an increase of expenditure. Accounting work as carried out in a number of Pay and Accounts Offices will probably cost as much as the total staff of an Accountant General's office which carries out both accounting and auditing duties, and the cost of the super-imposed audit under a separation scheme is therefore an additional item of cost.
- (d) The separation involves two processes of audit, the first being the prior scrutiny in the Pay and Accounts Offices and the second the test-audit by the statutory audit staff.
- (e) The test-audit staff, being less in touch with the Executive than under the present system, will be less advantageously placed than at present for the conduct of higher audit investigations.

- (f) The accounting staff under separation will be entirely provincialised and will be controlled by the Provincial Government. There is a risk that, if they are the servants of the local Government, the Accounts Officers will be less free to criticise the Executive and to check extravagance than the present Accountant General's staff which is independent of the local Government and under the sole control of the Central Government.
- (g) The help which the Accountant General is able to give, under the present system, in the preparation of budgets and revised estimates, is adequate.

921. *Arguments in favour of Separation.*—The arguments put forward by those who favour separation can best be stated by contrasting them with the arguments given in the last paragraph against separation :—

- (a) The system of scrutiny before payment has certain essential advantages over the present system :—(i) It provides a check of accuracy of claims before money is disbursed, and (ii) It makes available for accounting purposes the figures of disbursement at the time the cheque is issued. Even if scrutiny cannot be universally applied before payment, (which is a point which can only be settled after further experiment), the benefits of the system should be reaped wherever such preliminary scrutiny is possible in practice.
- (b) Where scrutiny is carried out before payment, the figures of compilation can be worked out on the basis of the cheques issued, and there is therefore no delay at all in the compilation of up-to-date figures of expenditure. The introduction of machine-accounting methods makes it possible to present daily compiled accounts including all the transactions of the previous day. The system of preliminary scrutiny, therefore, eliminates the delay in the collection and compilation of bills from all treasuries in the Province.
- (c) Additional expenditure is an inevitable corollary to the increase of power and responsibility granted to local Governments under the Reforms. The present accounting system is inconsistent with the new constitution of India ; and the increase of expenditure which is required to ensure to Provinces a proper degree of control over their own finances is only one of many such increases which result logically from the principles involved in the Reforms.
- (d) Admittedly separation involves two processes of audit. The alternative, however, if the departmental authorities are

to exercise proper financial control, must involve two processes of accounting. It is argued that the latter is wasteful whereas an increase of effective audit is never wasteful and (whether in its tangible results, or in its moral and preventive effect), is calculated to produce savings which to some extent pay for its own cost. Moreover separation ensures an independent check (which at present does not exist) on the efficiency of the system of accounts and on the accuracy of accounting; such independent check on the accounts themselves being as necessary as an independent audit of the vouchers from which the accounts are built up.

- (e) Audit will be more efficient when it is relieved of the large amount of routine work which is at present contingent on its responsibility for the compilation of accounts, and is placed in the theoretically desirable position of a critic of the completed work of others. It can then concentrate on more important enquiries and investigations, and on the efficiency of the system of internal check by the accounting authorities. It is kept in touch with the Executive through the local inspections which are an essential feature of the scheme, and by its close contact with the Pay and Account Offices, which largely identify themselves with the Executive.
- (f) The accounting staff under separation works immediately under the control of the Finance Department, whose function it is to check extravagance and to control the expenditure of the Executive. It is therefore not reasonable to argue that a Pay and Accounts Officer under the new system might be tempted to abstain from his duties of criticism and check.
- (g) The Pay and Accounts Officers, having each to deal only with their own departments, are more closely conversant with the needs and difficulties of those departments, and can therefore prepare their Budget and Revised Estimates more effectively.

922. *Effects of the Experiment.*—It is claimed that, where the experiment of Separation has been effectively tested, the benefits theoretically propounded in the last paragraph have actually been realised in practice. In fact, the larger the bulk of the transactions, the greater has been the proved benefit of the Separation in enabling Audit to effect radical improvements by concentrating on the larger issues; and it is in recognition of this fact that the Secretary of State has accepted finally the Separation of Accounts from Audit in the Army and the Railway Departments.

923. On the Civil side, however, the Separation, where it has been introduced, is still "experimental" both in Provincial and Central areas; and it must continue to be so until the lines of the further Constitutional development of India are determined.

924. It therefore remains only to consider briefly the extent and nature of the audit applied in the Separated Audit Offices.

925. *Extent of Audit in Separated Offices.*—The extent of such audit must be sufficient to enable the Auditor General to carry out his statutory responsibility for the efficiency of the audit of expenditure in India from the Revenues of India. It has, however, been explained that the internal check applied in the Separated Accounts Offices ought to and does effect an improvement in the accuracy of the bills, vouchers and accounts generally, and in securing a greater degree of compliance with financial rules and requirements.

926. It follows therefore that, with the progress of such improvement, it ought to be feasible to reduce the Auditor General's audit by degrees to quite a small test-audit aimed mainly at enabling the Auditor General to certify to the efficacy of the internal check conducted.

927. *Nature of Audit in Separated Offices.*—The nature of the audit is therefore so designed as to test in turn, as far as possible, the whole range of the activities of a Government or Department in such a way that, unless the internal check is thereby found to be defective, the accuracy of the specimens tested may be taken as adequate evidence of the accuracy of the whole. This will best be shown by giving a brief account of the nature of the audit conducted in some of the Governments and Departments in which separation has been introduced either experimentally or finally.

928. The system of separation of Accounts from Audit has been applied experimentally on the Civil side to the accounts of the United Provinces, the North West Frontier Province, and certain Civil Departments of the Government of India. In the case of the accounts of the Railway and Military Departments it has passed the experimental stage and has been finally accepted.

929. *Nature of audit applied by the Director of Audit, United Provinces.*—The audit applied is in the nature of concurrent test audit of a percentage of the accounts transactions each month. The test-audit is conducted on the lines applicable to the audit of expenditure in general, as explained in Chapters 13 to 17.

930. The system of applying the audit checks is not stereotyped, and new methods are tested from time to time. One of the tests is designed to ensure a fairly full audit of the accounts of one month in each half year, coupled with a full audit of the transactions of the March Final and subsequent transactions.

931. *Nature of audit applied by the Director of Railway Audit.*—The nature and extent of the audit applied by the Director of Railway Audit has been explained in Chapter 32.

932. *Nature of Audit applied by the ~~Director of Army Audit.~~*—The experiment which led to the present system of Statutory Audit of the accounts and financial transactions of the Military Department was different both in its genesis and in its development from the experiments on the Civil side and in the Railway Department. This difference was the result mainly of the pre-existing Military Accounts system, in which there were no combined offices of Audit and Accounts subordinate to the Auditor General. The whole of the Accounting and internal audit work was conducted by the Military Accounts Department; and Statutory Audit was merely superimposed upon this organisation in order to enable the Auditor General to carry out his statutory duties in regard to the audit of the ~~Army, Marine and Military Works~~ expenditure.

933. Prior to 1925, the experiment was in the following form. There were three Deputy Auditors General for Military Audit duties, one at Army Headquarters, one for the Northern and Eastern Commands, and one for the Southern and Western Commands. The work of the Deputy Auditors General of Commands consisted in an exhaustive inspection, and test audit of the work done in each Command and District Office of the Military Accounts Department in turn. The Deputy Auditor General at Headquarters audited the sanctions of the Government of India in the Army Department and controlled and watched the progress of audit in the Commands.

934. ~~From the year 1925 onwards, the test-audit of these accounts has been conducted by the Director of Army Audit assisted by two Deputy Directors and two Assistant Directors, the latter four Officers, being allotted to the four Commands.~~

935. ~~The Director of Army Audit, in addition to controlling the work of his Deputies and Assistants, audits all sanctions of the Army, Marine and Military Finance Departments, scrutinises all Codes and Regulations issued for the use and guidance of the Military Accounts Department, and prepares annually a Report on the Appropriation Accounts of the Army Department, the Military Engineering Services and the Marine Department.~~

936. The audit in the Commands is conducted concurrently to see that the accounts of the ~~Army~~, as included in the Finance and Revenue Accounts, are a correct presentation of facts, and that they represent money that has really been spent in the manner in which it is shown to have been spent.

937. The test audit may be broadly divided into (i) Stationary Audit, and (ii) Local Audit.

938. In the office of each Controller of Military Accounts, there is a stationary audit staff which tests the work done by the office of the Controller. The test audit is applied to the Accounts of one month of each of the heads of the accounts, different heads being selected for different months.

939. It will be clear that the examination of all the heads of account in turn, together with the tracing and scrutiny of the vouchers from which they have been compiled, and the pursuing of the accounting through the Sectional and Consolidated Compilations to the final Compilation of the Army Accounts, must ensure that all classes of original vouchers and of accounting processes are in turn test-audited.

940. The detailed procedure for the audit of any one head of account is briefly as follows :—

The first stage of test audit is the verification from the vouchers of the figures in the accounts books of the office of the Controller of Military Accounts. The process of this verification is as follows :—

- (i) The verification of the consolidated figure against the sectional compilations ;
- (ii) The tracing and obtaining of the vouchers from which the sectional compilations have been posted ;
- (iii) The distribution of those vouchers to the Routine staff ; and
- (iv) A complete verification of the sectional compilation figures against the vouchers.

941. The second stage is the audit of vouchers against rules and orders. These require special study ; and the audit staff should therefore have detailed knowledge of the following, in addition to the Codes detailed in Chapter 25 :—

- (i) Pay and Allowances Regulations, Parts I and II.
- (ii) Military Account Code.
- (iii) Military Engineering Services Account Code.
- (iv) Regulations for the Army in India.
- (v) Regulations for the Military Engineering Services
- (vi) Financial Regulations for the Army in India.
- (vii) Passage Regulations
- (viii) Military Audit Code.
- (ix) Royal Warrant.
- (x) King's Regulations.

- (xi) Indian Army Act.
- (xii) Army Act.
- (xiii) Cost Accounting Instructions.
- (xiv) Army Instructions (India) and India Army Orders issued from time to time.

942. Test-auditors should also acquire a sound knowledge of the nature of the expenditure which they are test-auditing, of the constitution and functions of the Military Accounts Department, and of the general organisation of the Army. It is at this stage of audit that the opportunity occurs for the application of higher audit principles.

943. The duty which falls to the test audit staff when conducting audit locally is to visit combatant units, arsenals, supply depots, remount depots, dairy farms, hospitals, and other formations, and to test those of their original accounts records which are not submitted to the Controller of Military Accounts but are checked locally by a staff deputed by him for the purpose. This work resembles that done by the local inspection staff of a Civil Accountant General, as described in the preceding Chapter, with this difference that the Military Test Audit Staff not only reviews the work of the units and formations themselves, but also conducts a statutory audit test-check of the non-statutory audit which has already been conducted by the Military Accounts Department.

944. *Conclusion.*—It is interesting to note that, where separated Audit has been introduced in India, its working approximates fairly closely to the procedure in England. Within each department the officials concerned with finance may be grouped generally as (i) the collectors, (ii) the spenders, and (iii) the financial controllers and accountants. These three groups are interdependent, and often overlap each other. Outside this departmental organisation there exists an independent authority, the Comptroller and Auditor General, who conducts a test audit of the transactions of the spenders and reviews the internal financial control exercised over them within the department and the correctness with which their financial activities are brought to account. The position in India, where separation has been effected, is closely parallel with the exception that the accounts in India are maintained, not by departmental accounting officers, but by officers who are, primarily at any rate, servants of the Finance Department.

PART V.

The Accounting Processes leading up to the Finance and Revenue Accounts and to the Technical Accounts.

CHAPTER 37.

Allocation of Expenditure between Capital and Revenue Accounts.

945. *Accounting processes in the Account Office.*—The general processes of the preparation of initial accounts and their submission to the Account Office have been described in Part II ; and it is now necessary to deal with the accounting processes in the Account Office. The essential preliminary to the accounting of Government transactions is the classification of each item of receipt and payment according to the official head of account to which it relates ; and the general principles and procedure of classification have been described in Chapter 11.

946. *Capital and Revenue Accounts.*—Some departments of Government, such as Railways, and Indian Posts and Telegraphs, are conducted on a commercial basis, while the operations of other departments of the Administration sometimes include undertakings of a *quasi*-commercial character, such as an industrial factory or a dairy farm. To indicate adequately the financial results of such undertakings, the maintenance of Capital as well as of Revenue Accounts is necessary ; and it is an important part of classification to allocate transactions correctly as between these two categories. The present chapter deals with the principles of such allocation.

947. *Preliminary investigations.*—Just as a merchant will not embark on any new venture until he is satisfied that it is going to pay him, so it is incumbent on the responsible officials of Government, before deciding on any large scheme or project of a purely commercial nature, to “ count the cost ” and satisfy themselves that the revenue to be derived from its working, after meeting all expenses connected with its operation, maintenance and upkeep, will suffice, at least, to repay the interest on the capital expended on it.

948. An essential preliminary to embarking on such a project, then, is an estimate of the capital expenditure to be incurred in connection with it, and of the probable gross revenue which will be realised from it after it is started. This information enables the authority who has power to sanction the scheme to determine whether sanction should or should not be accorded.

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AND REVENUE ACCOUNTS.

949. Distinction between Capital and Revenue Expenditure.—The success of a commercial undertaking is determined by the percentage of the net profits to the capital expenditure. It is essential then to distinguish correctly expenditure which is debitable to Capital and to Revenue Account, respectively. To make this distinction correctly is one of the most important duties of the accounting authority, as any error in this respect will falsify the whole of the results of commercial accounts. Mr. Dicksee, in his *Treatise on Auditing*, draws this distinction as follows:—

“Shortly stated, the question can in any event be answered by finding the answer to the following question: Has the particular expenditure incurred in any individual case been incurred for the sake of improving the earning capacity of the undertaking? If the answer to this question is in the affirmative, then, and to that extent, the expenditure in question is Capital expenditure. But if it has only had the effect of putting the earning capacity of the undertaking upon the same footing as that which had previously obtained (and which has since declined by the ordinary process of wear and tear, or the effluxion of time, in respect of which no provision has been made) it must be charged against Revenue. The precise meaning of this latter qualification is that the mere renewal of wasting assets, not otherwise provided for, cannot be called Capital expenditure, but that any extension, or the acquiring of fresh assets, is in the nature of Capital expenditure.”

950. Expenditure of a Capital nature.—It is obvious, then, that the whole of the initial expenditure in connection with the formation of a scheme prior to its being opened for regular working must be reckoned as Capital expenditure, but that the Capital expenditure on the scheme does not cease with the closing of the Project Estimate. That estimate merely provides for the formation of the scheme and the consequent construction or acquisition of assets to meet the needs incidental to its working, as anticipated at the time of its opening, but does not take into account the additional expenditure required for the extension of the scheme or for the acquiring of fresh assets. (Thus for example, in the case of a Railway, as the traffic expands, the need for additional facilities increases, and, the process being in the majority of cases continuous, the Capital account of the Railway is never actually closed, but additions are made to it from time to time in respect of extensions, alterations, and substantial permanent improvements which add to the original value or durability of the property.

951. Expenditure chargeable to Revenue Account.—With effect from the date of the opening of the business of an undertaking, a separate set of Revenue accounts has to be kept up in addition to the Capital accounts previously mentioned, and thereafter in the preparation of estimates, the allocation of bills, and the final record of expenditure in the accounts, a clear distinction has to be drawn between expenditure of a Capital nature, such as is mentioned above, and expenditure chargeable to the Revenue account, which may be said to consist of

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expenditure incurred in replacements, repairs, renewals and depreciation of fixed assets, and also the current expenses for carrying on the business, such as salaries of establishment employed on earning revenue and other incidental expenses, such as rents, rates, carriage, insurance, etc.

952. *Hard and fast rules impossible.*—The foregoing statement of the case gives only the general principle, which is applicable to all Government Commercial Departments or undertakings. It is quite impossible to draw a hard and fast line between what is debitable to the Capital and what to the Revenue Account. Cases may arise in which a work of replacement partakes of both a capital and a revenue nature; and this makes the question of allocation specially complicated.

953. *Rules for Railways.*—In the case of Railways, the practice, which was until recently followed in allocating between Capital and Revenue the expenditure on renewals and replacements, was based on the principles and rules promulgated in the Secretary of State's Despatch No. 17, dated 9th March 1864, the relevant portions of which are quoted below :—

- (a) "There can be no doubt that the expenses of an additional length of Railway, of the doubling of an existing line, of the original construction of any work including that of those intended to be only temporary, as well as of all additions to existing works, ought to be charged to the Capital account."
- (b) "When new lines form a junction with an existing Railway, the expense of the junction, and all its concomitant appliances of stations, sidings, signals, etc., is properly chargeable to Capital account and the cost should be divided, in such proportion as may be fair, between the two Railways for whose mutual and joint benefit the junction is made."
- (c) "The cost of additional stations and of any important building, not previously contemplated which is added to an existing station, should be charged to Capital account."
- (d) "The cost of maintaining in a proper condition the works when completed must be charged to the Revenue account, but if any extraordinary casualty should occur such as the destruction of a bridge by flood, the case must be regarded as exceptional, and the cost of construction or replacement must be charged to Capital or Revenue, or divided between them, as may be deemed proper, according to the circumstances of the case."
- (e) "In relaying rails, if the original rails have proved too light and additional strength in weight of iron or steel be required, the Capital account should bear the difference between the cost of the new and improved rails and that of replacing the old rails by rails of similar character. Revenue being chargeable for relaying and all other expenses. The same principle should be applied to replacing by iron sleepers those of wood originally laid down."
- (f) "In the locomotive stock, Capital ought to bear the first expense of any addition which may be made to the existing stock and of any important improvement or alteration which may be made in the same, as well as of machinery which is absolutely new, and not merely in replacement of old but all repairs and less important alterations of the existing stock of engines, carriages or wagons already paid for and handed over for working purposes should be charged to Revenue. The rolling stock and plant, after being once paid for from Capital, must be kept by Revenue to its full complement."

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- (g) "In no case should the cost of mere appurtenances of stock, after the opening of a line, or of a charge such as the substitution of one mode of lighting for another, whether in engines, carriages, stations, or signal lamps, the cost of which has already been paid for out of Capital, be admitted as capital expenditure. These properly belong to the traffic Revenue account."

954. The actual operation of the above principles has since been frequently discussed and the rules have, on occasion, been elaborated, and modified. In the case of company-worked Railways, their strict application has sometimes been relaxed to meet the terms of contracts. Formulæ were devised for measuring the extent of betterment and the consequent proportion of the charge for replacement which should be met from capital funds. As developed and applied in practice, the broad principle has been that revenue should pay for the cost of replacing and renewing property to the same standard of effectiveness as was first provided out of capital funds; and that the cost of genuine betterments only, whether determined by a formula or by more general considerations, should be met by capital.

955. Depreciation Fund.—The question of allocation was again brought to the front during the consideration of the scheme for establishing a Depreciation Fund for Indian Railways as recommended by the Railway Finance Committee of 1920. It was found at a very early stage of the discussions on this matter that the creation of a Depreciation Fund founded, not on the original cost of the property, but on the expenditure which would have to be incurred at some future date to replace the property in a like standard of effectiveness, involved difficulties and complications which would render the working of the fund all but impracticable. This led to the adoption of a principle of allocation based entirely on the original cost of the property to be replaced. This has greatly simplified the problem of allocation and the establishment and maintenance of a Depreciation Fund. This principle of 'original cost' is not inconsistent with the canons of commercial accounting, as the cardinal requirement of such accounting is that Revenue should pay or provide a fund for the adequate replacement of all depreciation of property.

956. On the separation of Railway from general finance, a Railway Depreciation Fund was established with effect from the 1st April 1924, to provide for the cost of renewing all wasting assets with the exception of formations, fencing and ballast; and revised rules of allocation based on the "original cost" principle have been promulgated from that date. Under these rules, when an article (or work) is replaced at more than the original cost, the extra cost is charged to capital; and conversely, when an article is replaced at less than the original cost, capital is reduced by the difference between the original cost and the cost of replacement. In both cases, the full original cost is charged to

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revenue, the actual charge to revenue being spread over the period of the assumed normal life of the asset by means of the annual contribution on its account to the Depreciation Fund. The annual contribution to the Depreciation Fund is a final charge against the revenues of the year, irrespective of what the payments from the fund may be. The effect of this rule is that, when an asset is replaced or abandoned or discarded before the expiry of its assumed normal life, the cost at debit of capital is written off to the Depreciation Fund which continues to receive credit on its account until the expiry of its assumed normal life.

957. The new rules of allocation of expenditure on renewals and replacements, and the arrangement for the Depreciation Fund, could not, however, be introduced in State Railways worked by companies so long as the present contracts remain in force. In these Railways the actual expenditure on renewals, etc., is charged against Working Expenses.

958. *Minor works, and temporary and experimental works.*—As an exception to the general rule, the cost of any work estimated to cost not more than a stated sum, as well as the cost of all temporary and experimental works, are charged to revenue.

959. *Capital receipts.*—Capital receipts arise mainly from the sale or disposal of assets already charged to the Capital accounts, and are therefore treated as a reduction of capital expenditure. In the case of Railways, these consist mainly of Capital raised by Companies working State Railways towards outlay on those Railways.

960. *System in Indian Posts and Telegraphs Department.*—A commercial system of accounts has been introduced in the Indian Posts and Telegraphs Department with effect from the year 1925-26. Block accounts have been prepared showing the present value of existing assets. The valuation Reports revealed that the amount of 'expired capital outlay' on April 1st, 1925, was very considerable, and that assets representing an appreciable amount of expenditure have been lost or abandoned in the past. A Depreciation Fund, contributions to which are made on a Sinking Fund plan, has also been instituted, but the Fund bears the cost of replacements to the extent of the depreciation accruing after April 1st, 1925, only, while the balance of expenditure which corresponds with the expired capital outlay on April 1st, 1925, is met by interest-bearing advances from General Revenues.

961. *Special rules for Irrigation works, etc.*—As regards the projects for Irrigation, Navigation, Embankment and Drainage Works, the

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following rules are observed in deciding whether an item of expenditure should be charged to Capital or to Revenue account :—

- (a) Capital bears all charges for the first construction and equipment of a project, as well as charges for maintenance on sections not opened for working, and charges for such subsequent additions and improvements as may be sanctioned under rules by competent authority. It may also bear charges on account of restoration of damages caused by extraordinary casualties, such as flood, fire, etc., and such charges are separately recorded as “extraordinary replacements”.
- (b) Revenue bears all charges for maintenance and working expenses which embrace all expenditure for the working and upkeep of the project, and also for such renewals, replacements, additions, improvements or extensions, as under the rules in clauses (c) and (d) below are chargeable to the Revenue account.
- (c) In the case of renewals and replacements of existing works, if the cost really represents an increase in the capital value of the system and exceeds the cost of the original work by Rs 1,000, or such other limit as may be fixed by the local Government, the cost of the new work is divided between Capital and Revenue, the portion debited to the latter account being the cost of the original work, which is estimated if the actual cost is not known, the balance being charged to Capital. In other cases, the whole cost of the new work is charged to Revenue. Thus a renewal which does not represent a substantial improvement of the original work, but is in all material essentials the same as the latter, although it may exceed the cost of that work by more than the prescribed amount, is not charged to Capital but to the Revenue account.
- (d) When the construction estimate of a project for which a separate Capital account is kept, is closed, the expenditure on works of extensions will be charged thus :—
 - (i) Estimates exceeding Rs. 1,000, for (1) works which are in themselves directly remunerative, such as new distributaries, mills or works for increasing the canal discharge and (2)* works which are necessary for the full development of a project, but are not in themselves directly remunerative, shall be charged to the Capital account.
 - (ii) Estimates amounting to Rs. 1,000, or under shall be charged to the Revenue account.

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- (iii) All estimates for works which are neither remunerative in themselves nor considered necessary for the development of the project shall be charged to the Revenue account.

962. *How the Capital and Revenue Expenditure is met.*—The revenue expenditure of quasi-commercial projects is generally met from the ordinary revenues of the country, but the capital expenditure is met mainly from the following sources :—

- (a) Current surplus revenues or cash balances accruing from previous surpluses ;
- (b) Any balances available from Savings Bank or other Deposits ;
and
- (c) Sums borrowed in the open market or from the Provincial Loans Fund.

The question whether the capital expenditure on a particular work or project is to be met from revenue or from other sources, is purely a question of finance. The capital expenditure on the Northern India Salt Revenue Department is charged in the Revenue Section of the accounts.

963. *Local Governments' powers [of borrowing.*—As to (c) above, large powers have now been conferred on Governors' provinces to raise loans required for their needs under the Local Government (Borrowing) Rules. Local Governments can thus raise loans for any of the following purposes :—

- (a) to meet capital expenditure on the construction or acquisition (including the acquisition of land, maintenance during construction and equipment) of any work or permanent asset of a material character in connection with a project of lasting public utility, provided that—
 - (i) the proposed expenditure is so large that it cannot reasonably be met from current revenue ; and
 - (ii) if the project appears to the Governor General in Council unlikely to yield a return of not less than such percentage as he may from time to time by order prescribe, arrangements are made for the amortization of the debt ;
- (b) to meet any classes of expenditure on irrigation which have under rules in force before the passing of the Act been met from Loan Funds ;

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- (c) for the giving of relief and the establishment and maintenance of relief works in times of famine or scarcity ;
- (d) for the financing of the provincial loans account ; and
- (e) for the repayment or consolidation of loans raised in accordance with these rules or the repayment of advances made by the Governor General in Council.

CHAPTER 38.

Compilation of Accounts.

964. *The Several Stages of Compilation.*—The first compilation of the Indian public accounts takes place at the Government treasuries and in certain departmental offices whose transactions appear in the treasury accounts in lump ; the second takes place in the several Account Offices mentioned in Chapter 5 ; the third—a subsidiary account—takes place in the office of the Controller of the Currency ; and the final compilation takes place in the office of the Auditor General.

965. *The Initial Compilation.*—The first stage of the initial compilation is the daily accounting of each receipt and payment as it occurs in the Cash Books and subsidiary registers of the Treasury and of certain departmental offices. This process corresponds with the daily postings of the Cash Book and Ledgers in a business firm or company (except that their Ledgers are kept by double entry). From these initial records each treasury compiles schedules of receipts and payments for each Department, or for each major head not relating to any particular Department, which, together with the monthly Cash Account and the List of Payments, are submitted to the Account Offices. The departmental accounts are however submitted to the Account Office already compiled, together with the necessary vouchers and other documents.

966. *Procedure of account in Account Offices.*—The procedure of the initial compilation has been described in Chapters 8 and 9 ; and it is now necessary to pass on to the later stage of the procedure of accounting in an Account Office. This Chapter mainly describes the various processes generally followed, in a combined Civil Audit and Account Office*, in the compilation of the account of Government transactions in India in respect of which initial accounts are rendered to the Indian Audit Department by treasuries and by certain departmental officers. In the case of Posts and Telegraphs Account Offices, the system described here may be taken as a general guide, though in matters of detail the rules prescribed in the Posts and Telegraphs Account Codes are applicable.

967. The system of account compilation as obtaining in the separated Account Offices is not carried out by the Indian Audit Department ; although it should be remembered that in their case the Auditor General has the power to prescribe the form in which, and the time or

* NOTE.—In the case of the offices of the Accountant General, Central Revenues, the Accountant General, Madras, and the Audit Officers, Indian Stores Department, and the Lloyd Barrage and Canals Construction, the procedure for compilation differs in certain details from that described in this Chapter.

times at which, the accounts shall be submitted to him for audit and for inclusion in the Finance and Revenue Accounts.

968. *Compilation of Treasury Accounts.*—The distinctive feature of the method by which, until recently, accounts were compiled in the Account offices was that the District or Treasury formed the main accounting unit, and the whole of the public transactions taking place at a treasury used to be collected in the first instance in a separate compilation book for that particular treasury. The figures from the compilation books for all the treasuries were then consolidated under different heads of account through the Detail Book.

969. The defect of this system lay in the fact that the figures pertaining to a head of Service remained, in the initial stages of compilation, scattered over a number of compilation books, and it was not until sometime had elapsed, and the figures had undergone numerous processes of compilation, that the total expenditure for the whole Province under each head could be readily ascertained.

970. Obviously this arrangement was unsatisfactory from the point of view of financial control over the progress of expenditure against funds allotted; and the defect in the system became the more noticeable after the Reforms of 1919 in view of the enhanced responsibility placed upon the administrative authorities in regard to this matter.

971. To remedy this defect, a system of compilation—commonly known as the Departmental System—has been introduced in the Account Office under which details of transactions are compiled under Revenue and Service heads for the whole Province on a Departmental or Major Head basis. The detailed procedure is described below; and it should be observed that the separate schedules of receipts and payments, which are submitted by treasuries, form an essential preliminary to it.

972. *The first stage of Compilation of the Treasury Accounts:—The Detail Book.*—The first stage of compilation is the posting of the Detail Book directly from the treasury List of Payments and the Cash Account. The Detail Book contains a vertical column on the left for the district or treasury, and horizontal columns for each detailed head of account.

973. As revenue receipts and service payments are shown by lump sum totals of major heads of account in the Cash Account or the List of Payments, the figures, so far as these heads are concerned, are taken in lump against the suspense heads (receipts or payments as the case may be), named after the Department or major head concerned, pending detailed classification and final adjustment in the Classified Abstracts. These suspense heads are the connecting links between the lump sum compilations made from the treasury List of Payments and the Cash Account, and the corresponding detailed compilations from the separate

schedules in respect of each Department or major head of 'revenue receipts' or 'service payments'.

974. *The second stage of Compilation of the Treasury Accounts:—The Classified Abstracts.*—At the same time, receipts and payments pertaining to detailed heads of revenue and expenditure, which are entered by treasuries in separate schedules, are grouped, totalled and posted in the Classified Abstract which is maintained separately for each Department, each group of small Departments, or each major head of account not relating to any particular department, according to local convenience. The form of this Abstract is precisely the same as that of the Detail Book.

975. After both the schedules of payments and the receipt schedules for the month have been completely posted in the Classified Abstract, the total of the postings is taken (with a minus sign) to the Suspense head named after the Department or major head to which the Abstract relates, in clearance of the corresponding suspense head in the Detail Book.

976. The prompt clearance of these suspense heads is an essential feature of the arrangement, and is watched through separate Broad-sheets maintained for the purpose.

977. The Classified Abstracts, when completed, bring out the monthly Provincial totals under each detailed and minor head of revenue and expenditure for each Department or major head, as the case may be.

978. *The third stage of Compilation of the Treasury Accounts:—The Consolidated Abstract.*—The next stage of compilation is the posting of the figures from the Classified Abstracts into the Consolidated Abstract. In this Abstract, heads of account appear in a vertical column on the left, and similar columns are provided for each month for progressive totals for all months except April. Separate Consolidated Abstracts are maintained for each Department or Major Head of account.

979. *Departmental Accounts.*—The procedure in dealing with the departmental accounts which are rendered to the combined Civil Audit and Account Offices is slightly different, as they are received already compiled and are incorporated direct in the Detail Book, in separate volumes which may be kept for each such Department. The second stage of compilation of the departmental account is the preparation of the Consolidated Abstract, of which one set is maintained for incorporation of the departmental figures as well as the figures under Debt and Remittance heads.

980. *The final stage of Compilation:—Abstract of Major Head Totals.*—The final stage of compilation is the preparation of the Abstract of Major Head Totals from the Consolidated Abstracts mentioned in paragraph 978. This Abstract is in the same form as the Consolidated Abstract

and shows, by major heads of account, the entire receipts and disbursements of the Province during and to end of the month. It brings out the joint accounts of the Central and Provincial Governments under revenue, expenditure and debt heads, excluding (1) transactions adjusted finally in the Home Accounts and (2) Miscellaneous adjustments between the Central and the Provincial Governments which are adjusted outside the regular accounts.

981. *The Civil Account.*—On completion of the Abstract of Major Head Totals, an extract from it, in a form known as the Civil Account, is forwarded to the Controller of the Currency on the 25th of the month following that to which the account relates.

982. *Account of the Controller of the Currency.*—The Controller of the Currency also receives the account of the Indian Posts and Telegraphs Department and the Railway Department, and submits to the Government of India the following monthly compilations of the accounts received by him :—

- (i) a compilation for Civil Account Offices ;
- (ii) a compilation for Posts and Telegraphs ;
- (iii) a compilation of the Railway Accounts.

These, however, are not available until two months after the month to which they relate. Figures of treasury receipts and issues are reported to the Government of India on the 16th of the following month excepting those for the month of January which are telegraphed on the 10th of the following month.

983. *Accounts furnished to the Provincial Government.*—The Accountant General* furnishes the provincial Government with a monthly account of its transactions in such form and detail as may be required. This account includes also the Home transactions of the provincial Government as shown in the monthly accounts received from the India Office and the High Commissioner, the sterling figures being converted into rupees at £1=Rs. 13½.

984. *Summary of the Accounting Process.*—It will be noticed that the monthly compilations in the combined Civil Audit and Account Offices proceed in four stages. In the case of each treasury, the original accounts reach the Audit office in the form of Schedules of receipts and payments, Cash Account, and List of Payments, supported by the necessary vouchers, while, in the case of departmental offices, they are received in the form of classified abstracts, supported by the necessary documents.

985. The problem is to ascertain the total receipts and payments under each detailed, minor or major head of account for the whole

* NOTE.—This does not apply to a Province where the separate Accounts are compiled under the direction of the Local Government itself.

Province. To this end, the receipts and payments are (i) grouped and totalled for each District under each detailed head in respect of Debt and Remittance transactions, and in lump for revenue receipts, and service payments (this item refers to Treasury transactions only), (ii) summed into Departmental totals under each detailed and minor head, (iii) summed into Provincial totals under each minor and major head. Opportunity is at the same time taken to compare the growing figures with the budget estimates and appropriations. The essential compilation books are the Detail Book, the Classified Abstract, the Consolidated Abstract, and the Abstract of Major Head Totals.

986. *Subsidiary Accounting Processes.*—In describing the main outline of the successive stages of Compilation, certain subsidiary accounting processes have been omitted which are essential in order to bring correctly to account items which do not fall properly into their places in the ordinary course of procedure. These will now be considered—although it will be understood that they come chronologically at an earlier stage.

987. *Correction of Accounts.*—Corrections of accounts, necessitated by misclassification or other causes, are made by means of transfer entries, except that, when a correction affects heads appearing in different Classified Abstracts maintained by the Treasury Audit Sections in a Provincial Accountant General's office, the necessary transfer is generally effected through the medium of the suspense heads mentioned in paragraph 973.

988. *Transfer entries.*—Transfer entries, as the name indicates, are entries made to transfer an item from one head of account to another. The idea is in itself simple, but the procedure necessary to carry it out is somewhat elaborate. The detailed procedure and forms are given in Chapter 11 of the Account Code. The final outcome is a number of separate statements showing the debits and credits to be made under each detailed head, the totals of the debits and credits being necessarily equal. In the case of revenue and service heads only the net result appears in these statements; or in other words, the debits and credits under each detailed head are deducted from each other and only the balance posted. But in the case of Debt and Remittance heads, the gross credits and debits are usually posted, as these heads have answering accounts on both sides. The net result of all the transfer entries is posted monthly at the foot of the Detail Books and the Classified Abstracts and the detailed and minor head totals are thus corrected.

989. *Exchange Accounts.*—Exchange Account transactions are of the nature of paper remittances from one Department to another. The Military Department receives or pays an amount which belongs to Civil. It credits or debits it to "Exchange Account between Civil and Military" (a head under Debt and Remittance) and sends an account to Civil

which responds by debiting or crediting "Exchange Account between Civil and Military" by credit or debit to the proper revenue or service head. On the Government books, therefore, for the single transaction (which we will say is an item of receipt) there are in the first stage three entries, namely a credit and a debit to the head "Exchange Account between Civil and Military," and a credit to the proper revenue head. In the Auditor General's office the entries under the Exchange Account head are taken against and cancel each other, and the net result is the credit to the revenue head transferred from the Military Department where it occurred to the Civil Department where it has to be brought to account. As in the case of transfer entries, while the idea is simple, the actual process is a somewhat elaborate bit of accounting.

990. *Division of accounts.*—It has already been explained (paragraph 240 and Chapter 15) that, in addition to the numerous heads of account or classification, there is a broad division of Revenue into Central and Provincial, and of Expenditure into (1) Central—Non-voted, (2) Central—Voted, (3) Provincial Reserved—Non-voted, (4) Provincial Reserved—Voted, (5) Provincial Transferred—Non-voted, (6) Provincial Transferred—Voted. In the Detail Books, Classified Abstracts, and Consolidated Abstracts, the detailed heads subordinate to each minor head are grouped under these sub-divisions. The Abstracts of Major Head Totals bring out, therefore, the total figures of the province under each of these sub-divisions for each major head.

991. *Accounts compiled in Separated Account Offices.*—Simultaneously with the compilation made in the combined Audit and Account Offices, similar compilations are also prepared by the separated Account Offices for the area or department concerned; and in their case also the essential books of compilation are the Detail Book, the Classified Abstract, and the Consolidated Abstract.

992. *Accounts submitted to the Auditor General.*—From the accounts thus compiled in Account Offices, the progressive figures for March final, that is to say such of the transactions of the year as can be adjusted up to the 31st July of the following year, are communicated to the Auditor General on the 10th August. Correcting or additional entries made after the despatch of the March final account are communicated to the Auditor General in two batches on the 10th September and 10th October, after which no entries are permitted.

993. *Indian Home Accounts.*—Copies of the accounts prepared by the India Office and the High Commissioner, in respect of transactions incurred in England on behalf of the Central and Provincial Governments which are finally booked in the Indian Home Accounts, are also sent by the Home authorities to the Auditor General. These, together with the Accounts mentioned in the last paragraph, form the basis of the Finance and Revenue Accounts which will be considered in the next Chapter.

994. *Machine Accounting.*—Before closing this Chapter, it is desirable to mention the fact that experiments are at present in progress in the mechanisation of accounting processes. In regard to simple processes, such as the accounting of Provident Fund transactions, the use of machines has already become standardised. The mechanisation of the processes of accounting which have been described in this Chapter requires, as must be apparent, far greater study and experiment in view of the numerous complications which these processes involve. It is too early, at the time of writing, to include any details regarding the progress of these experiments; but readers of this Manual should use every endeavour to keep themselves in touch with the development of the employment of machine methods for accounting and compilation work.

CHAPTER 39.

Finance and Revenue Accounts.

995. *Finance and Revenue Accounts.*—The final compilation of the Indian Public Accounts (including the accounts of the transactions occurring in England) is prepared in the Office of the Auditor General in a form known as the Finance and Revenue Accounts of the Government of India, for submission by the Auditor General to the Secretary of State in Council, through the Governor-General in Council.

996. *Statutory basis of the Finance and Revenue Accounts.*—The statutory provision relating to the public accounts of India is contained in Section 26(J) of the Government of India Act which runs as follows :—

“ The Secretary of State in Council shall, within the first twenty-eight days during which Parliament is sitting next after the first day of May in every year, lay before both Houses of Parliament—

(a) An account, for the financial year preceding that last completed of the annual produce of the revenues of India, distinguishing the same under the respective heads thereof, in each of the several provinces ; and of all the annual receipts and disbursements at home and abroad for the purposes of the Government of India, distinguishing the same under the respective heads thereof ;

* * * * *

(c) Accounts of all stocks, loans, debts and liabilities chargeable on the revenues of India at home and abroad, at the commencement and close of the financial year preceding that last completed, the loans, debts and liabilities raised or incurred within that year, the amounts paid off or discharged during that year, the rates of interests borne by those loans, debts and liabilities respectively, and the annual amount of that interest.

* * * * *

997. The accounts prepared in obedience to this provision of law are the Finance and Revenue Accounts of the Government of India mentioned in the opening paragraph of this chapter. Rule 18 of the Auditor General's Rules definitely imposes upon the Auditor General the duty of preparing the annual Finance and Revenue Accounts of the Government of India in the form prescribed by the Secretary of State, and thus gives statutory recognition to the practice which was previously in force.

998. The compilations received from the Account Offices in India, and the Home Accounts received from England, are the basis of the Finance and Revenue Accounts ; and the powers vested in the Auditor General in regard to accounts, as described in paragraphs 47, 54 and 97, are incidental to his responsibility for the preparation of the Finance and Revenue Accounts.

999. The compilation of the Finance and Revenue Accounts is made by collecting the figures communicated by the several Account Officers and those in the Home Accounts, according to the arrangements described in paragraph 10.1 below, through a separate compilation record called the Working Sheets. Before, however, these figures are finally accepted,

they are carefully checked with the Budget and Demands for Grants, and any inaccuracies discovered are communicated to the Account Offices for re-adjustment in the last batches of accounts.

1000. *Peculiarities of the Finance and Revenue Accounts.*—The preparation of the Finance and Revenue Accounts is complicated by reason of the fact that these accounts—

- (a) cover transactions not only of the Central Government but also of the Provincial Governments with their separate resources and theoretically separate balances ;
- (b) combine transactions in two currencies,—rupee and sterling—the exchange relation of which varies from time to time.

The present method of exhibition of the accounts is the outcome of a series of developments which are described in the introductory note to the Finance and Revenue Accounts.

1001. *General arrangement of Accounts.*—The Finance and Revenue Accounts consist of three parts :—

- (i) General Accounts (Accounts Nos. 1A to 12).
- (ii) Subsidiary Accounts (Sections A to W).
- (iii) Appendices.

Throughout the General Accounts, the transactions are presented in round sums of Rupees, the transactions in England being combined with the transactions in India at the rate of exchange prescribed by the Secretary of State for India. In the Subsidiary Accounts, however, the transactions in England are as far as possible exhibited separately in sterling, the total being converted into rupees and added to the India figure so as to give a rupee total.

1002. *General Accounts.*—These Accounts open with a general statement which shows in parallel columns the revenue and expenditure of the Central and Provincial Governments, the latter in the aggregate, and bring out the net result of the revenue account of the Central Government on the one hand, and of the Provincial Governments on the other.

1003. Next to this a summary is given of the receipts and disbursements of the Central Government working from the cash balance at the commencement of the year to the balance at the end of the year.

1004. Then an account is given showing by geographical areas the revenue and expenditure of India, both Central and Provincial, in the several Provinces of British India and in England, arranged under major heads of revenue and expenditure, and finally the total revenue and expenditure of India as a whole.

1005. These are followed by other statements showing :—

- (i) In the case of the Central Government, the revenue and expenditure of that Government, as distinct from those of the Provincial Governments, arranged under major heads of account, and their distribution between England and the several Provinces of India ; and the debt and remittance transactions arranged under main heads, and the opening and closing cash balances distributed between England and India.
- (ii) In the case of each Provincial Government, its total receipts and disbursements, both in India and England, under revenue and expenditure major heads as well as under debt heads, the distribution of the expenditure between " Reserved " and " Transferred," and its opening and closing balances held in deposit with the Central Government.
- (iii) The distribution between ' voted ' and ' non-voted ' of the expenditure of the Central and of each of the Provincial Governments by major heads of account.

1006. *Subsidiary Accounts.*—The Subsidiary Accounts show by minor heads, and by detailed heads where necessary, the details of the figures shown in the General Accounts. For convenience of exhibition, the transactions are grouped into sections which are distinguished by letters of the alphabet, a double letter denoting the capital portion of the particular set of transactions. By this arrangement a complete idea can be formed of the Capital and Revenue transactions of the important Commercial Departments which are brought to account under different major heads in the general accounts and estimates. The nature of the accounts included in each section is described in the explanatory notes appended thereto.

1007. The Subsidiary Accounts are prepared on the basis of ' Governments ' as a unit, and under each Provincial Government they show the distribution between ' Reserved ' and ' Transferred ' of the expenditure in India and in England. Each of these accounts is preceded by a comprehensive note explaining the nature of the transactions with which the account deals. A close study of the notes preceding the important accounts gives a general insight into the principles underlying the financial system followed in India.

1008. *Appendices.*—The Appendices in the Finance and Revenue Accounts are three in number, marked " A ", " B " and " C." Appendix " A " contains a general account of the debt and remittance transactions of the Government of India, distributed between England and the several Provinces of British India. This is followed by detailed accounts of debt and remittance heads of which the particulars are not given in

the body of the Finance and Revenue Accounts. Appendix "B" contains an account of capital raised by Railway Companies for expenditure on State and other Railways in respect of which guarantees of various kinds have been given by Government. Appendix "C" reproduces the Balance Sheets and Profit and Loss Accounts of some of the more important Commercial undertakings of the Central and Provincial Governments whose accounts are maintained under the rules in Chapter 2 of the Account Code. The detailed accounts of these undertakings are, as already stated, maintained outside the regular Government Accounts in the proper commercial form, and the accounts are subjected to the usual audit check by the Director of Commercial Audit.

1009. Method of accounting.—In paragraph 19 it has been stated that the mass of the Government accounts are kept by single entry. The whole of the compilation described so far (except the *pro formâ* accounts of the Commercial departments and undertakings) is single-entry compilation, and may in fact be regarded as the compilation of one huge daily, monthly, and yearly Cash Book, broken up into Treasury, Departmental, Central and Provincial Sections, and working to a daily and monthly cash balance or surplus. But there is also a double-entry portion of the Government Accounts, which will be described in the next Chapter.

CHAPTER 40.

Technical Accounts.

1010. Review of Balances.—Under Rule 21 of the Rules framed under Section 96-D (1) of the Government of India Act, 1919, the Auditor General is statutorily responsible for preparing a Review of the Balances outstanding in the books maintained by the Account offices. This is necessary in order to bring home to the debtors of Government their liabilities, and to review Government's liability to the public.

1011. Technical Accounts.—This necessitates the maintenance of a set of Technical accounts called the Journal and Ledger, which are maintained strictly on the Double Entry system.

1012. The main purpose of the Journal and Ledger is to bring out, by a scientific method, the balances of accounts in regard to which Government acts as a banker or remitter, or borrower or lender. Such balances are, it is true, also worked out in the regular Government accounts already described, which are single-entry compilations; but their accuracy can be guaranteed only by a periodical verification with the balances brought out in the double entry accounts.

1013. As the finances of each of the Provincial Governments have now been separated from those of the Central Government, it has become essential that the balances relating to each Government should be separately worked out, and for this purpose the Journal and Ledger are maintained in two parts: Part I for transactions of the Central Government and Part II for those of the Provincial Governments.

1014. The Journal.—The Journal first sets out all the opening balances of the year, then all the transactions of the year, and finally all the closing balances of the year. As the opening entries of one year in the Journal are the exact replica of the closing entries of the previous year, the former are posted only by group heads, full details under each being available in the closing entries in the previous year's Journal.

1015. The transactions of each month are then posted in the Journal by the following entries:—

I.—CENTRAL SECTION.

- (i) Sundry Accounts, etc. Dr. to:—
 - (a) Revenue Receipts and Sundry accounts (Central)—for the revenue and receipts of the Central Government of the month.
 - (b) Provincial Government—for the revenue and receipts of the Provincial Government of the month.

- (ii) (a) Service expenditure and Sundry accounts (Central) } Dr.
 (b) Provincial Government } to—
 Sundry Accounts, etc., for the amounts of the Central and Provincial disbursements of the month.
- (iii) Provincial Government Dr. to :—
 Net Expenditure in England (Provincial Government) for the net transactions of the Provincial Government in England for the month.
- (iv) Provincial Government Dr. to :—
 Provincial contributions and miscellaneous adjustments between Central and Provincial Governments for the net adjustments under this head.

II.—PROVINCIAL SECTION.

- (i) Central Government Dr. to :—
 Revenue Receipts and Sundry accounts (Provincial)—for the revenue and receipts of the Provincial Government of the month.
- (ii) Service Expenditure and Sundry accounts (Provincial) Dr. to—
 Central Government—
 for the disbursement in India of the Provincial Government for the month.
- (iii) Net Expenditure in England (Provincial Government) Dr. to :—
 Central Government—
 for the net transactions of the Provincial Government in England, for the month.
- (iv) Contributions and Adjustments between Central and Provincial Governments Dr. to :—
 Central Government—
 for the net adjustments under the former head.

1016. The totals in the amount columns of the Journal are not closed at the end of each month but are carried forward continuously till the end of the year when the balance should be struck. The details of the balances as worked out in the Ledger are then posted in the portion of the Journal in which are recorded the closing entries.

1017. *The Ledger.*—The Ledger shows the opening balance, the transactions of the year, and the closing balance of each Ledger head. As regards the Debt and Remittance heads which are closed to "Balance" (see paragraph 1020) it shows in respect of each Local Ledger Head (see Appendix 7 to the Audit Code) the opening balance, the transactions

of the year, and the resulting closing balance. In regard to Debt and Remittance heads which are closed to "Government" the postings are made by Central Ledger Heads only. Similarly the Revenue Receipts, Service Expenditure, and Capital Expenditure not charged to Revenue, are posted by totals only. The main object of the Ledger is to bring out the balances under the Debt and Remittance heads which close to Balance and the postings in respect of other heads are intended merely for the purpose of squaring the Ledger.

1018. The main ledger heads are :—

- (i) Opening and closing heads, namely "Government" and "Balance."
- (ii) Revenue Receipts.
- (iii) Service Expenditure.
- (iv) Capital Expenditure not charged to Revenue.
- (v) Net Expenditure in England (Provincial Government).
- (vi) Provincial Contributions and Miscellaneous Adjustments between Central and Provincial Governments.
- (vii) Remittance heads which are closed to Government.
- (viii) Debt heads and Remittance heads which are closed to balance.
- (ix) Personal accounts of Collectors who are in account with the Account Officer.

1019. Under the system of book-keeping followed in the Indian accounts, all ledger heads are closed either to "Government" or to "Balance." All heads whose balances are not carried forward from year to year are closed to "Government." The balance under that head therefore represents the cumulative results of revenue, capital and other transactions in respect of which no separate progressive balanced accounts are kept.

1020. The ledger is opened by transferring from balance accounts to the various debt heads and personal accounts the balances with which they close in the preceding year's ledger. The transactions of the year are then posted month by month, from the Distribution Statements for Revenue and Service heads, and from the Consolidated Abstract for Capital, Debt and Remittance heads. The accuracy of the postings is tested after the close of the year by the preparation of a trial balance sheet the totals of which should agree with the totals in the Journal. The accounts are closed at the end of the year, by transferring the difference between the Dr. and Cr. sides of each account—

- (i) To Government, in respect of Revenue Receipts, Service expenditure, Capital expenditure not charged to Revenue, Net expenditure in England, Provincial Contributions, etc.,

and a few Debt and Remittance heads (*e.g.*, Gold Standard Reserve, Imperial Bank Deposits, Remittances adjusted on the Central Books, Accounts between Civil and Civil, Accounts between Civil and other Departments, and Remittance Account between England and India).

- (ii) To Balance in respect of Debt and Remittance heads other than those given in (i) above.

1021. *Verification of Balances.*—The accounts of the year are not complete until the balances upon the ledger under the debt heads and the outstandings under the remittance heads have been duly verified. Accordingly an explanatory statement of closing balances under these heads, called the Review of Balances, is submitted to the Auditor General in the form of a general report, which is drawn up in two parts, Part I dealing with the balances of Central transactions and Part II dealing with the balances of the Provincial Governments.

1022. Each part contains *inter alia* a general statement of balances, the nature and condition of the asset or liability involved therein, and also information whether the person or persons by whom the balance is owned or from whom it is due admit its correctness, and, if they do not, where the difference lies. Any discrepancies noticed in the Review are carefully watched and their reconciliation reported to the Auditor General in supplementary reports.

1023. *Technical Report.*—The reports of verification of balances submitted by the several Account officers in India are reviewed and consolidated into a general Review of Balances which is submitted to the Secretary of State for India. This is known as the Technical Report on Balances; and it includes, besides the balances in the Indian books, the sterling balances held on the books of the Secretary of State and the High Commissioner for India.

1024. The most important statement in the Technical Report is the statement in the opening paragraph showing the balances in India and in England. A scrutiny of the statement will, however, show that it is in no sense a real balance sheet in the commercial sense of the term, but is merely a collection of balances in the books of the Account offices at the end of a particular year.

1025. The Review of Balances does not therefore in any sense claim to represent a complete statement of the assets and liabilities of Government. Government has valuable assets in the shape of land, buildings, workshops, factories, stock and stores, etc., which are not included in these balances, whereas a Commercial concern would invariably include them in its statement of assets. The great bulk of the assets of Government are of such a nature that it is impossible to place upon them a money-value of sufficient accuracy to justify their inclusion in a document of the nature of a balance sheet.

1026. *Conclusion.*—It will now be understood why it was stated in Chapter 2 of Part I that the immediate objective of Government accounting is not to ascertain the gain or loss on the transactions of the Government *as a whole* in carrying out its activities. The progress of accounting has been traced from the initial records, through all the intermediate stages, up to the two main ends of Government accounting, namely, to the compiled Finance and Revenue Accounts on the one hand, and to the Review of Balances on the other. The latter Compilation is designed to bring out the position of Government in regard to those assets and liabilities only whose clearance would affect the Cash Balances of Government; while the former has as its object to exhibit current transactions of receipt and payment in relation to each other and in relation also to the Budget Estimates and other forecasts made: the combined result being to give a picture in figures of the financial position of Government and of the financial achievements of the administration.

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