

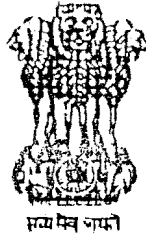


**REPORT**  
**OF THE COMMITTEE**  
**ON**  
**THE DEPARTMENTALISED ACCOUNTING SYSTEM**

**AUGUST 1990**



Shri S.B.LAL, IAS (Retd.)  
Chairman,  
Committee to Review  
Departmentalised  
Accounting System.



D.O.No.HPC/DAO/C/672  
Ministry of Finance  
Department of Expenditure  
Room No.718, 'C' Wing,  
Lok Nayak Bhawan  
New Delhi-110 003

8th August, 1990

Dear Minister,

I have the honour of submitting herewith the report of the high powered Committee constituted by the Ministry of Finance on 5th April, 1989 to review the departmentalised accounting system introduced in the Government of India in 1976.

2. As you may kindly recollect Sir, the separation of accounts from audit under the Central Government and the introduction of the departmentalised accounting system was considered a major administrative reform for the modernisation of financial management in the Government of India. Shri C. Subramaniam, the then Finance Minister, in his letter dated 23rd October, 1976 had visualised the objectives of the scheme as follows:-

"The major objective of separation of accounts from audit is to improve the financial competence of the Ministries and to make accounts an effective tool of management, using the timely and accurate flow of financial and accounting information, for programming, budgeting and evaluation of various activities and for the optimum utilisation and efficient monitoring of resources, as well as for effective exchequer control."

3. With more than a decade of experience of the new system, our Committee, under its terms of reference, was required to undertake for the first time an in-depth review of the functioning of the system to see to what extent this reform had been successful in fulfilling its objectives and to recommend, among other things, measures to make departmentalised accounting a more effective tool for management accounting purposes.

4. Our enquiry, lasting over a year, has revealed that 14 years after the departmentalisation of accounting, only the comparatively minor objectives of the reform have been achieved; the major objectives are still to be fully appreciated and realised.

5. The Committee is happy to note that the departmentalised accounts organisation is fulfilling its primary role of timely and accurate accounts keeping. Accounts of individual Ministries, the compilation of which was delayed for months in the past, are now available by the 20th of the following month. Instead of being a routine historical function when accounts were kept 'externally' by the C&AG, the accounts function has, after departmentalisation, come closer to management and policy making. Another major achievement of the system is the prompt settlement of personnel and public claims. Computerisation of accounting data has made considerable progress. Similarly, there has been a remarkable progress in the timely remittance of excise and income tax revenues to the Government account. As desired by the Public Accounts Committee, the Civil Appropriation Accounts and Finance Accounts are now being placed before the Parliament during the Budget Session in the ensuing year.

6. Against the above mentioned achievements, the Committee has found that so far nothing tangible has been done to make accounts an effective tool of management even though this was the principal objective of the reform and one of the prescribed functions of the Controller General of Accounts who heads the Departmentalised Accounts Organisation, is to assist in the introduction of management accountancy. So far, no systematic Management Information Systems (MIS) have been developed and used in different Ministries; even the model MIS adopted in three Ministries by 1982 appear to have fallen into disuse. The Committee has also noted that 'Performance Budgets' have at present little value as tools of management and 'Zero Based Budgeting' has not resulted in any significant economies.

7. The Committee has also found that the 'Internal Audit' which was introduced in 1976, in a very limited way, to support

management by promoting efficiency and effectiveness, has so far been restricted only to verifying the accuracy of the accounts and the "regularity" of the expenditure incurred. No attempt has yet been made to carry out propriety-cum-efficiency audit and to relieve the Comptroller and Auditor General of the burden of routine auditing.

8. The Committee feels that modernisation of financial management cannot be achieved without expert installation and maintenance of new systems and continuous modification and refinement until requirements are satisfactorily met. The objective of making accounts a tool of management has not been achieved to a large extent because of failure to develop systems which management accounts would have subserved. The Committee has noted that initiatives in this regard have not succeeded in the past because of lack of adequate preparation, special training and follow-up. The Committee was surprised to note that over 50% of the officers currently in the Finance Departments did not belong to any cadre which had received systematic training in Finance and Accounts. The Committee is of the view that Financial Administration in the Government of India can no longer be treated as a 'generalist function'. Special emphasis has to be laid on appropriate extensive experience and training of officers and subordinate staff. Such properly qualified and trained personnel should replace the existing untrained persons according to a time-bound programme.

9. The Committee has made a number of recommendations for completing the process of integration of the accounts organisation with the Ministries/Departments with a view to making internalised accounts a tool of management fully associated with policy making. Similarly, a number of steps have been suggested for making Internal Audit an effective internal control mechanism of inspection, review and performance appraisal. The lines on which the organisational structure of the Civil Accounts Department and the Indian Civil Accounts Service should be reformed with a view to achieving the objectives for which they were created have also been spelt out by the Committee. We have recommended greater involvement of the

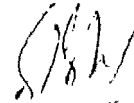
Members of the ICAS in the activities of the Ministries/Departments and also the enlargement of their areas of responsibility so as to make the best use of their knowledge and experience not only for compilation of accounts and internal audit but also for financial advice and for assisting the Ministries/Departments in making accounts an integral part of overall management.

10. We believe that with the implementation of our recommendations, the objectives of departmentalisation of accounting system will be achieved in the next few years, resulting in greater efficiency and economy in financial administration and considerable savings in the non-Plan expenditure.

11. At the end of our assignment, we thank you and all others in the Government of India, especially in the Ministry of Finance who extended their support and cooperation to us.

With regards,

Yours sincerely,



[ S.B. LAL ]

Prof. Madhu Dandavate,  
Finance Minister,  
North Block,  
NEW DELHI-110 001.



# CONTENTS

CHAPTERS	Page No.
<b>Chapter I: Introduction</b>	<b>1</b>
A. Appointment of the Committee	1
B. Methodology	2
<b>Chapter II: Historical Background</b>	<b>4</b>
A. History of Separation of Accounts from Audit	4
B. Yardi Committee Recommendations	5
C. Reforms in Financial Administration	6
D. Departmentalisation of Accounts - 1976	7
E. Changes After 1976	8
(a) Entrusting budget work to Accounts Organisation	8
(b) Elimination of duplication in accounting work	8
(c) Central Pension Accounting Office	9
<b>Chapter III: Review Of Departmentalised Accounting System</b>	<b>10</b>
A. Objectives	10
B. Advantages of the New Scheme	11
C. Evaluation	11
(a) Integration with the administrative set-up	11
(b) Settlement of personnel and public claims	13
(c) Timely and accurate accounts keeping	14
(d) Prompt crediting of receipts into Government account	16
(e) Publication of Rules and Manuals:	16
(f) Avoidance of Duplication in Accounting Work/Records - The Merged DDO Scheme	17
(g) Maintenance of Accounts - General	19
(h) Internal Audit	20

<b>Chapter IV: Accounts As A Tool Of Management</b>	<b>21</b>
A. Objective	21
B. Evidence from Ministries/Departments	21
C. Advisory Committee 1976	22
D. Performance and Zero-Based Budgeting	23
E. Proforma Accounts	24
F. Management Accountancy	25
G. Modernisation Of Financial Management	26
H. Experience in The United Kingdom	28
I. Utilisation of Accounts Cadres	29
J. Budget Sections	30
K. Monitoring and Control	34
L. Integration of Field Offices	36
M. Miscellaneous Accounts Units	38
<b>Chapter V: Internal Audit</b>	<b>39</b>
A. External and Internal Audit	39
B. Experience Abroad	39
C. Internal Audit in Central Government in India	40
D. Effectiveness of Internal Audit	42
E. Audit Resources	43
F. Evaluation of the Internal Audit Scheme	43
G. Audit of Computerised Accounts	45
H. Efficiency Audit by Controller General of Accounts	46
<b>Chapter VI: Training</b>	<b>48</b>
A. National Institute of Financial Management	48
B. Upgrading of Existing Skills	49
C. Training of Subordinate Cadres	49
D. Exchange Scheme	51
E. Deputations	52



F.	Research	52
<b>Chapter VII: Organisational Structure</b>		<b>54</b>
A.	Departmentalised Accounts Organisation	54
B.	Indian Civil Accounts Service	56
C.	Controller General of Accounts	61
D.	Promotion Quota for Group 'B' Officers	62
E.	Accounts Staff	63
F.	Accelerated Promotion Schemes	64
G.	Revival of SAS Apprentice Scheme	65
H.	Merger of the Indian Cost Accounts Service with the Indian Civil Accounts Service	66
<b>Chapter VIII: Summary of Conclusions &amp; Recommendations</b>		<b>68</b>
	<b>Acknowledgements</b>	<b>82</b>
<b>ANNEXES</b>		
Annex 'A'	Ministry of Finance letter dated 5.4.1989 constituting the Committee to review departmentalised accounting system.	86
Annex 'B'	D.O. letter dated 26.6.1989 from the Chairman to the Secretaries to the Ministries/Departments of the Government of India.	88
Annex 'C'	Questionnaire enclosed to d.o. dated 26.6.89.	90
Annex 'D'	List of Ministries/ Departments/Parties to whom the Questionnaire was sent and the parties which responded/did not respond.	93
Annex 'E'	Matrix of the Replies Received to the Questionnaire from Ministries/Departments and others	96
Annex 'F'	List of Officers who tendered oral evidence before the High Power Committee:	159
Annex 'G'	Yardi Committee's Recommendations On Management Accounting System	161

Annex 'H'	Orders issued by the President of India relieving the Comptroller and Auditor General of India from compiling the accounts of the Ministries/Departments of the Government of India.	167
Annex 'I'	Scheme of Integrated Financial Advisers.	172
Annex 'J'	Typical Scheme of Departmentalisation of Accounts in the Central Ministries/ Departments.	176
Annex 'K'	Organisational Chart of the Departmentalised Accounts Set-up in Central Civil Ministry/Department	182
Annex 'L'	Copy of the D.O. Letter No.B-12020/1/78-CGA dated 4.5.1981 from Shri V.B. Eswaran, Secretary, Ministry of Finance, Department of Expenditure addressed to all the Secretaries in the Central Ministries of the Government of India.	183
Annex 'M'	The Departmentalisation Of Union Accounts (Transfer Of Personnel) Act, 1976	184
Annex 'N'	Closing Balances under some of the Suspense Heads.	186

# CHAPTER I

## INTRODUCTION

### A. APPOINTMENT OF THE COMMITTEE

The Government of India constituted a High Powered Committee to review the functioning of the departmentalised accounting system, vide Ministry of Finance, Department of Expenditure letter No. F.1(15)-E(Coord.)/89 dated 5th April, 1989 (Annex 'A'). The composition of the Committee was as under:-

- |    |   |    |                  |
|----|---|----|------------------|
| 1. | Shri S.B. Lal, IAS (Retd.)  | .. | Chairman         |
| 2. | Shri A.J.A. Tauro, IA&AS (Retd.)  | .. | Member           |
| 3. | Shri S.C. Mital, ICAS (Retd.)   | .. | Member           |
| 4. | Prof. S.C. Kuchhal,<br>IFCI Visiting Professor,<br>Faculty of Management Studies,<br>University of Delhi. | .. | Member           |
| 5. | Shri R.K. Mathur, IDAS,<br>Addl. Secretary & F.A.,<br>Department of Food.                                 | .. | Member-Secretary |

#### 1.2 The terms of reference of the Committee were as follows:-

- (i) to undertake an in-depth review of the functioning of the departmentalised accounting system and assess to what extent integration with the administrative set-up has been achieved, and to what extent the departmentalised accounting system is fulfilling its management accounting role;
- (ii) to recommend measures to make departmentalised accounting a more effective tool for management accounting purposes;
- (iii) to assess the extent to which the departmentalised accounting organisation is fulfilling its primary role of timely and accurate accounts keeping and identify shortcomings and suggest remedial measures;

- (iv) to assess the function of internal audit in the departmentalised accounting system and recommend steps for strengthening it; and
- (v) to review the organisational structure and role of the Civil Accounts Department, including that of Indian Civil Accounts Service and its effectiveness in the discharge of functions relating to departmentalisation of accounts and recommend measures for effectively achieving the objectives.

The Committee was to function on a part-time basis with secretariat assistance being provided by the office of the Controller General of Accounts. The Committee was to devise its own procedures of work. Shri R.Ramanathan, Assistant Controller General of Accounts, was appointed to head the secretariat of the Committee as Officer on Special Duty.

## B. METHODOLOGY

1.3 The first meeting of the Committee was held on 5th May, 1989. The Committee noted that the separation of accounts from audit and the introduction of the departmentalised accounting system under the Central Government was considered to be a major administrative reform which was completed in phases from 1.4.1976 to 1.6.1980. This reform was intended to integrate accounts with the administrative set up so as to make it a useful and relevant tool for management purposes. After a preliminary examination of its terms of reference, the Committee spent some time in drawing up a Questionnaire to elicit views on matters covered by its terms of reference. The Questionnaire was sent by the Chairman to the Secretaries of all the Central Ministries/Departments and the heads of some large organisations. A copy of the D.O. letter dated 29.6.89 from the Chairman and the Questionnaire attached thereto are at Annexes 'B' and 'C'.

1.4 The Committee also considered it necessary to obtain information on financial and accounting arrangements in the Railways, Defence, Posts and Telecommunications. Accordingly, they were requested to send notes covering, *inter alia*, the organisational set up of the finance, accounts and internal audit wings, MIS generated by the accounts organisations, etc. The Controller General of Accounts, Department of Expenditure, was also requested to send a background note on the introduction of the departmentalised accounting system, organisational chart of the Civil Accounts Department, etc. The Ministry of Finance was also requested to send a note regarding the role, functions, objectives, etc. of the Integrated Financial Advice system.

1.5 We received good response to the Questionnaire from Ministries/Departments. A list of Ministries/Departments/parties to whom the Questionnaire was sent and the parties who responded/did not respond is at Annex 'D'. We thought it useful to prepare a summary of the replies received to our Questionnaire and the same is tabulated in the Matrix at Annex 'E'.

1.6 After examination of the replies received to our Questionnaire, we thought it necessary to have discussions with the Secretaries of some of the Ministries/Departments, Financial Commissioner (Railways), Secretary (Defence Finance), Controller General of Accounts (CGA) and other senior officers, both serving and retired. Shri T.N.Chaturvedi, the then Comptroller & Auditor General of India was kind enough to share his views with the Committee. A list of the officers with whom the discussions were held is at Annex 'F'.

1.7 We had received replies to our Questionnaire from the Associations representing the officers and staff of the Civil Accounts Organisation. We also had discussions with the representatives of the ICAS Officers' Association, All India Association of Pay & Accounts Officers, All India Central Civil Accounts Service (Junior Accounts Officers) Association and All India Civil Accounts Employees' Association. Discussions were also held with some individual officers belonging to the Indian Civil Accounts Service.

1.8 In all, the Committee held 47 meetings to record evidence, deliberate on the various issues and finalise its report.

## CHAPTER II

### HISTORICAL BACKGROUND

#### A. HISTORY OF SEPARATION OF ACCOUNTS FROM AUDIT

2.1 The programme for separation of Accounts from Audit and for departmentalisation of Accounts in the Ministries and Departments of Government of India was implemented in phases, the last and final phase having been completed on 1st June, 1980. Earlier, attempts had been made to separate Accounts from Audit. Based on the recommendations of the Inchcape Committee on Retrenchment (1922-23), a scheme of separation of Accounts from Audit was introduced in the Police and Education Departments of the United Provinces in April, 1924 which was later extended to the whole Province (April, 1926). However, this scheme which was introduced as an experimental measure, was discontinued in 1931 on economy considerations. Subsequently, in 1949, the then Auditor General had favoured setting up of a separate organisation for maintenance of Accounts which view was supported by the Public Accounts Committee in its first Report (1951-52). The PAC in its third Report (1952-53) had also stated that the Comptroller and Auditor General of India should not be saddled with the responsibility of compiling Accounts of the Union and the State Governments and that separate Accounts offices for the various Ministries and major spending Departments should be set up as soon as possible. The Estimates Committee had also lent support to this suggestion in its 9th Report of May, 1954. Separate Pay & Accounts Offices were set up in 1955 on an experimental basis for the Education and Refugee Relief and Rehabilitation Departments of the West Bengal Government and the Police Department of the Saurashtra Government. They were wound up in 1956-57.

2.2 The first major experiment in separation of Accounts from Audit under the Central Government was the creation of Pay & Accounts Offices for the Supply Wing of the Ministry of Works, Housing and Supply, the Food Wing of the Ministry of Food & Agriculture and in the Rehabilitation Ministry. The Pay & Accounts Offices (P&AO) in these three Ministries/Departments were set up in April, 1955. With the *de facto* transfer of the French Establishments to the Government of India, a PAO for Pondicherry was set up on 1.11.1954. In respect of Rajya Sabha and Lok Sabha Secretariats, payment and accounting functions

were separated from Audit on 1.12.1955. All Payments were centralised in these Pay & Accounts Offices which functioned under the control of the respective Ministries/Departments. There was no further separation of Accounts under the Central Ministries/Departments till the major reform of 1976.

2.3 In the Railways, the separation of Accounts from Audit was accomplished much earlier. The Acworth Committee (1921) had recommended that the Railway Department should be responsible for its own Accounts. Accordingly, the duties of auditing and accounting were separated in the Railway Department from September, 1925. The accounting staff of each State managed Railway system was placed under the Financial Commissioner of Railways. The Railway Accounts Department was administered by the Financial Commissioner of Railways with the assistance of the Controller of Railway Accounts. The Audit staff continued to be under the administrative control of the Auditor General.

2.4 On the Defence side, the Accounts have been maintained departmentally from the very beginning. Till 1864, there was a post of Chief of the Military Finance at each Presidency and Examiners of Military Accounts were functioning under him. Later, the post of Accountant General to the Military Department was created who was to function under the Military Department and not under the Auditor General. Under the Government of India Act, 1919, the Auditor General was made responsible for the statutory audit of the Accounts which were maintained by the Military Accounts Department (later re-designated as Defence Accounts Department in October, 1951).

2.5 On the Postal and Telecommunications side, the Accounts of the Telecommunications Wing were separated between April, 1968 and October, 1970. On the Postal side, however, the separation took place in April, 1976.

## B. YARDI COMMITTEE RECOMMENDATIONS

2.6 A major step which led to the reforms of 1976 was the constitution of a Group of Ministers on Administration by the Government in March, 1973 (later re-designated as Cabinet Committee on Administration), which was required to recommend changes to improve administrative performance in relation to the requirements of the Five Year Plan. Financial administration was identified as one of the areas having the potential and need for improvement. A special sub-Group was set up under the Chairmanship of Shri M.R. Yardi, Secretary, Ministry of Finance (hereafter referred to as the Yardi Committee), which was to assist

and advise the Group in the area of financial administration. The Report of the Yardi Committee was submitted in August, 1973 and its recommendations were approved by the Group of Ministers in September, 1973. The Yardi Committee was of the view that the responsibility for internal financial management and achievement of specific performance should be entirely that of the administrative Ministries and for this purpose, there should be adequate delegation of financial powers to them to match their responsibilities. It was also necessary that their competence in the field of financial management should be significantly and suitably improved through the development of appropriate internal attitudes and skills and better internal discipline. It was in this context that the Yardi Committee recommended immediate switch-over to Performance Budgeting so as to make the Budget a more effective tool of management and for installation and development of Management Accounting Systems as an integral part of each Department. Increased delegation of powers to administrative Ministries was also recommended. The Management Accounting System proposed by it is at Annex 'G'

### C. REFORMS IN FINANCIAL ADMINISTRATION

2.7 Government decided that the recommendation for introduction of departmentalised management accounting system should be processed further in consultation with the Comptroller & Auditor General of India. Accordingly, the separation of Accounts from Audit was effected in a phased manner starting with the Ministries of Industry and Civil Supplies, Tourism and Civil Aviation and Communications (other than the Directorate of Posts and Telegraphs) with effect from 1.4.1976. In other Ministries, the departmentalisation of accounts was effected from 1st July, 1976 and 1st October, 1976. With effect from 1.4.1977, the C&AG was relieved of the responsibility of compiling accounts of revenue receipts including those of the CBDT and the CBEC. On that day, the Accounts of Delhi Administration were also separated from Audit. The last phase was the separation of accounts from audit in the Andaman & Nicobar Islands Administration on 1.6.1980. Copies of the various Presidential notifications in this regard are at Annex 'H'.

2.8 Another reform in financial administration which was carried out by the Government at about the same time was the introduction of the Integrated Financial Advice system in lieu of the then existing two tier system of financial advice to the Ministries/Departments. The initial financial advice was provided by the internal Financial Advice system which consisted mainly of the officers of



the Ministries/Departments having financial background. In addition to this, the Ministry of Finance continued to have its officers associated in all the Ministries/Departments providing external financial advice with overriding powers. In order to avoid the duplication of work as also to allow greater devolution of powers to the Ministries/Departments, it was decided to combine these two functions under the Integrated Financial Adviser. This was introduced in October, 1975. Under the new scheme (Annex 'I'), the Integrated F.A. was responsible both to the administrative Ministry and to the Ministry of Finance. The administrative Ministries were to exercise the enhanced powers delegated to them, in consultation with the Integrated F.A. and he was to assist in Budget formulation, scrutiny of projects and programmes, post-Budget vigilance, preparation of the Ministry's Performance Budget and the monitoring of progress of schemes against the Budget etc. The maintenance of an efficient accounting system was necessary for these purposes.

#### D. DEPARTMENTALISATION OF ACCOUNTS - 1976

2.9 The scheme of departmentalisation of Accounts under Ministries/Departments introduced a major change in the accounting arrangements. Earlier, the treasuries under the State Governments were the main focal point for payments. Certain checks were exercised by the treasuries on bills submitted by the Drawing and Disbursing Officers mainly to see that there was a correct classification of expenditure, the bills were arithmetically correct and supported by sanctions of the competent authorities. The payments made by the treasuries were subject to post-audit by the Indian Audit and Accounts Department. There was also a system of issue of pay slips and leave entitlement certificates for Gazetted Officers. G.P. Fund Accounts (other than of Group 'D' staff) were also maintained by the Accountants' General. All pensions and other retirement benefits were also to be authorized by the Accountant General.

2.10 Under the new scheme, the C&AG was relieved of the responsibility for compiling the accounts of the Central Ministries and for authorising payments. The treasuries were also relieved of the functions relating to receipts and payments on behalf of Central Government and in their place, public sector banks were nominated for each Ministry/Department to look after these functions. A Principal Accounts Office was set up under each Ministry/Department under whom a number of Pay & Accounts Offices were created to attend to the payment and accounting functions of the formations under that Ministry. Where creation

of a separate Pay & Accounts Office was not justified, cheque drawing powers were given to the Drawing & Disbursing Officers without pre-check by the Pay & Accounts Office. The Secretary of the Ministry was designated as the Chief Accounting Authority for all transactions of the Ministry and he was to discharge these functions through and with the assistance of the Integrated Financial Adviser of the Ministry. An Internal Audit Wing was also created to conduct internal inspection of the records of the Pay and Accounts Offices as also the departmental offices under the Ministry.

2.11 A typical scheme of Departmentalisation of Accounts containing its salient features and the organisational chart of the Accounting Organisation in the Central (Civil) Ministries/Departments is at Annexes 'J' and 'K'.

#### E. CHANGES AFTER 1976

2.12 During the course of implementation of the scheme, a few changes were introduced from time to time. The more important of these changes are discussed below -

##### (a) Entrusting budget work to the Accounts Organisation

The Ministry of Finance felt that the departmentalised accounting system had been well established and still better use could be made of the system and the manpower available. Accordingly, it was suggested by Secretary (Expenditure) to the Secretaries of Ministries/Departments in May, 1981 (Annex 'L') that the budget work then being supervised by the officers of the Administration or Finance Wings, i.e. DFA/Dy. Secretary (Budget), etc. could be entrusted to the Chief Controller of Accounts/Controller of Accounts. It was also felt that the Controller of Accounts could be entrusted with some Finance work also. However, these suggestions were not uniformly accepted or implemented by the Ministries/Departments.

##### (b) Elimination of duplication in accounting work

In spite of departmentalisation of accounts in 1976, two sets of accounts were being prepared, one by the Drawing and Disbursing Officers and the other by the Pay & Accounts Officers. It was decided by Government in February, 1986 that the Cash Branch and the Drawing and Disbursing Officer in the Ministries/Departments at the Secretariat level should form part of the Accounts wing under the control of the Chief Controller of Accounts/Controller of Accounts, as the case may be, under the overall charge of the Financial Adviser of

the Ministry/Department concerned. In this way, Joint Secretary (Admn) in the Ministry/Department was relieved of the responsibilities in this regard. With the change-over, the functional and day-to-day administrative control of the Cash Branch/DDO in each Ministry at the Secretariat level would vest in the respective CCA/CA/Dy. CA who would be responsible for proper discharge of all items of work entrusted to the Cash Branch. Although the existing staff dealing with these items of work were to be placed under the Controller of Accounts, no change was envisaged in the then existing cadre composition of the Cash Branch. The revised arrangement was to take effect from the 1st April, 1986 and with the changeover, the records maintained by the D.D.O. at the secretariat level, became full-fledged Accounts records.

(c) **Central Pension Accounting Office**

A new Central Pension Accounting Office has been set up which issues Pension Payment Orders through computer in respect of employees retiring on or after 1st January, 1990. The Pension Payment Orders are sent directly to the branch of the public sector bank from which the pensioner wishes to draw his pension. Thus, the Accountant General and the treasuries have been relieved of this work under this arrangement and the work relating to the accounting of pensions has also been taken over from the Audit and Accounts Department. It is expected that under this arrangement, a data bank of information on all matters concerning the Central civil pensions would be available speedily and at one place.

## CHAPTER III

### REVIEW OF DEPARTMENTALISED ACCOUNTING SYSTEM

#### A. OBJECTIVES

3.1 The major objective of the Departmentalisation of Accounts was to improve the financial competence of the Ministries/Departments and to make Accounts an effective tool of management. The timely and accurate flow of financial and accounting information was to be used for programming, budgeting and evaluation of various activities and for optimum utilisation and efficient monitoring of resources. The availability of reliable data was expected to help the Ministries in framing the Budget Estimates more accurately as well as in effective exchequer control. In order to fully utilise the potential of the new Accounting Organisation, it was also envisaged that suitable management accountancy systems and comprehensive management information systems would also be built up in the Ministries and Departments for the proper interpretation and utilisation of accounting data to assist in policy formulation, effective utilisation of funds and achievement of maximum efficiency at optimum costs. It was recognised that these systems would have to be developed to suit the requirements of each Ministry/Department.

3.2 Our terms of reference require us to undertake an in-depth review of the functioning of the Departmentalised Accounting System and assess to what extent integration with the administrative set up has been achieved and to what extent the Departmentalised Accounting System is fulfilling its management accounting role. We are also required to assess the extent to which the Departmentalised Accounting System is fulfilling its primary role of timely and accurate accounts keeping. The functioning of Internal Audit in the Departmentalised Accounting System is also required to be evaluated.

3.3 A review of the scheme of Departmentalisation of Accounts was carried out by the C&AG in the Audit Report for 1978 soon after its introduction. This was essentially a review of the special features of the new set up. Certain apprehensions were expressed regarding the system of post-check incorporated in the scheme for payments made by Drawing and Disbursing Officers with cheque drawing powers. In any case, a review of the functioning of the system would

have been possible only after it had stabilized and been in operation for some years. We have been informed that after the C&AG Report of 1978, no other review of the system was carried out. The comprehensive review entrusted to this Committee is therefore now being undertaken for the first time.

## B. ADVANTAGES OF THE NEW SCHEME

3.4 The Yardi Committee had expected the following advantages to accrue from the Departmentalisation of Accounts:-

- (i) It will do away with any degree of externality of the accounting system to management and provide for its integration with the Ministries/Departments.
- (ii) Setting up of Pay Offices would lead to speedy settlement of all claims including those of employees of all categories.
- (iii) The system would do away with duplication of accounting work and records then prevailing in Departments and Audit Offices.
- (iv) Accounting would become an aid to management in the real sense of the term for financial control and performance appraisal.
- (v) Compilation of accounts would be speeded up.
- (vi) With Internal Audit being given its proper place and afforded sufficient scope and support, statutory audit need not go into minor details but could devote attention to major issues.

A summary of recommendations of the Yardi Committee is at Annex 'G'.

## C. EVALUATION

3.5 We have reviewed the functioning of the Departmentalised Accounting System with reference to its objectives and the benefits which were to accrue from the introduction of the system. The review of the system, keeping in view the terms of our reference, has brought out the following:-

- (a) Integration with the administrative set-up
  - (i) With the separation of Accounts from Audit, the Departmentalised Accounts Organisation is now a part and parcel of the

Ministry/Department. The personnel of the erstwhile Audit & Accounts Department were also transferred to the Ministry/Department through Ordinance No.2 of 1st March, 1976, [subsequently replaced by the Departmentalisation of Union Accounts (Transfer of Personnel) Act, 1976] (Annex 'M') to enable the Ministries to discharge their responsibility of compiling the Accounts. It was stipulated in this Act that every officer or employee transferred would be entitled to be appointed to a post carrying a scale of pay not less favourable than the post which he held immediately before the date of transfer and in the same capacity in which he held that post. Thus, both the Accounts Organisation and its personnel are administratively under the control of the respective Ministry/Department and function under the overall supervision of the Secretary of the Ministry through the Financial Adviser of that Ministry. The Accounts personnel have not, however, been integrated into the Central Secretariat Services like CSS, CSCS and CSSS, but have retained their own separate pay scales and designations like Accounts Officer, Junior Accounts Officer, and Accountant as was stipulated in the Act referred to above. This is not unusual as there are many other cadres functioning in the Central Secretariat in the Technical and Scientific fields who, though a part and parcel of the Ministry, are not members of the Services manning the Central Secretariat.

- (ii) The Departmentalised Accounts staff have very forcefully represented before us that they are not being treated as belonging to the mainstream of the Ministries/Departments and in support, it has been stated that in many cases, they have been accommodated in garages, mezzanine floors or at places away from the main Ministry/Department. The officers and staff also generally have a feeling that they are isolated and treated as a category distinct from the other personnel of the Ministry. The CGA has also informed us that the staff in the accounts organisation have not been treated as well as the staff of the main Ministry and that there have been complaints of not being provided with proper accommodation and working facilities. This, according to him, has in some cases resulted in a sense of frustration.

- (iii) It is unfortunate that such a situation persists even after the scheme has been in operation for about 14 years. In fact, in his inaugural address at the Second Conference of Chief Controllers/Controllers of Accounts on 6th February, 1986, the present Prime Minister, who was then the Finance Minister, had observed:

"I have noted the emphasis placed by the Controller General of Accounts to the importance of closer involvement of the Accounts Wing in different Ministries with the mainstream of Departmental activities. I myself feel that no organisation, leave alone financial administration, can succeed in an environment of compartmentalisation and isolation of one Wing from the other.....The Managers of Accounts who have the responsibility for creating a base for financial information, have to be fully associated with the activities of the Department, particularly those relating to Planning, Budgeting, expenditure control and monitoring."

- (iv) We have thought it necessary to draw attention to the above observations which have to be kept in view by all so that the Departmentalised Accounts Organisation is able to serve the purposes for which it is established. **We would, therefore, urge that all Ministries/Departments should involve the Accounts staff, who are their own personnel, in all their activities and take steps to remove the psychological feeling that they are not treated like other personnel of the Ministry/Department. An attitudinal change is called for at all levels if the integration of the Accounts personnel with the administrative set-up is to have a real content and meaning.**

(b) Settlement of personnel and public claims

We had specifically invited comments through our questionnaire about settlement under the new Scheme of personnel claims such as pay bills, T.A. bills and post-retirement claims of Government employees and public claims such as contractors'/suppliers'bills. Almost all the Ministries/Departments have stated that in the field of settlement of claims, the achievement has been impressive after the introduction of the new system. G.P. Fund accounts are reported to be maintained

efficiently and the annual statements are issued within the prescribed time. Post-retirement claims are being settled promptly and in many cases, on the day of superannuation itself. We understand that a special watch is maintained to ensure prompt and orderly payment of bills and other claims received from the public. All this has provided a great deal of satisfaction. **The Committee considers prompt settlement of claims as a major achievement of the departmentalisation of accounts.**

(c) **Timely and accurate accounts keeping**

- (i) We had inquired through our questionnaire whether the Accounts Organisation was providing timely and reliable data for purposeful review of ongoing schemes and better formulation of new schemes. It has been confirmed by almost all respondents that the monthly accounts are being rendered promptly and that there is an accurate and timely flow of accounting information. **The Civil Appropriation Accounts and Finance Accounts are placed before Parliament during the Budget Session of the ensuing year as desired by the Public Accounts Committee (1978-79) in its 104th Report (Sixth Lok Sabha). We have been informed by the CGA that there has been progressive improvement in the compilation of Accounts and the Accounts in respect of individual Ministries are available by the 20th of the following month and that of the Central Government (Civil) Ministries/Departments as a whole by the 30th of the following month. Further, the Accounts Officers in various Ministries are now in a position to provide information about the expenditure incurred against Budget Heads as and when required at very short notice. Presentation of accurate accounts in time has placed at the disposal of the decision-makers vital information for management purposes. The usage of the information is most evident in the tasks of watching flow of receipt and expenditure against estimates, and of locating well ahead of time, areas of potential excesses and savings in various grants.**
- (ii) Control over the balances under suspense heads is a fair indicator of the quality of the accounts maintained. The Committee has noted that there has been a progressive reduction in the balances accumulated under suspense heads such as Reserve



Bank Suspense CAO, and Departmental Adjusting Accounts Suspense. Details are shown in Annex 'N'. However, the balances under Suspense Accounts-(Civil), PAO Suspense, Provident Fund Suspense and Public Sector Bank Suspense have been fluctuating. There is also a large balance under PAO-Cheque Suspense and adverse balance under Departmental Cheques which requires a thorough reconciliation with a view to eliminating possibility of loss on account of irregular issue of cheques or alteration of cheques after issue. The Committee was informed that the clearance of Suspense balances was being vigorously monitored by the CGA. The Committee would recommend that the Inspection Wing in the CGA's office should continuously liaise with the CCAs/CAs and play an active role in assisting the field offices in tackling problem areas.

- (iii) The computerisation of accounting data has made considerable progress and with the introduction of Personal Computers (PC) from June, 1988, the Ministries' Accounts are consolidated in the Principal Accounts Offices on computer and floppies are sent to the CGA which are used for consolidation of the monthly Civil Accounts. Since October, 1988, all the P&AOs in Delhi have access to Personal Computers and are capturing data at the voucher/challan/scroll levels. Arrangements have also been made to supply PCs to P&AOs outside Delhi so that voucher level computerisation could be completed shortly.
- (iv) It has been pointed out by a number of respondents that the information generated by the Accounts Organisation is not in a format which can assist in the monitoring of ongoing schemes or better formulation of new schemes. This raises the question of the Management Information System required by each Ministry/Department to suit its needs which had to be evolved. This aspect has been dealt with in greater detail in Chapter IV.
- (v) The Committee is happy to note that the Departmentalised Accounting Organisation is fulfilling its primary role of timely and accurate accounts keeping.

## (d) Prompt crediting of receipts into Government account

There has been remarkable progress in the timely remittance of excise and income-tax revenues to the Government account. The two separate schemes launched for CBEC and CBDT from 1st October, 1988 have proved very useful. In the metropolitan towns like Bombay, Delhi and Madras, the collections of CBDT are reported to be reaching the Reserve Bank of India within 2 to 3 days. The new scheme has also been extended for accountal of expenditure and departmental receipts in all the Civil Ministries/Departments of the Government of India from 1st May, 1989.

## (e) Publication of Rules and Manuals:

(i) An important responsibility of the CGA is framing and revision of rules and manuals relating to the maintenance of accounts. We have been informed that the CGA has kept the matter under constant review and revised the Rules and Manuals from time to time. Among the important Publications brought out by the CGA are:

- i) Government Accounting Rules, 1990
- ii) Account Codes for Accountants General, 1984
- iii) Civil Accounts Manual
- iv) Manual for Drawing and Disbursing officers
- v) Central Government Accounts (Receipt and payment) Rules, 1983.
- vi) Inspection Code
- vii) Revised List of Major and Minor Heads of Accounts; and
- viii) Scheme for payment of Pension to the Central Government (Civil) Pensioners by Public Sector Banks.

(ii) The Committee is pleased to note that adequate attention is being paid to the continuous review of Rules and Manuals.

(f) Avoidance of Duplication in Accounting Work/Records -  
The Merged DDO Scheme

- (i) The scheme of Departmentalisation of Accounts was expected to avoid maintenance of duplicate and parallel records by the C&AG and various Ministries/Departments. However, this objective was not completely eliminated even after Departmentalisation of Accounts. It was, therefore, decided by Government that with effect from 1.4.1986, the records maintained by the DDOs at the Secretariat level should be treated as full-fledged accounts records. Accordingly, records like Establishment Check Register, Register of Broad Sheets for long-term advances, Provident Fund Ledger Folios and Broad Sheets of Provident Fund and Register of final payment cases were not required to be maintained by the P&AO thereafter. It was also envisaged that the pre-check before payment would be exercised by the Cash Branch itself through a Checker or Examiner functioning on behalf of the P&AO at the level of a Senior Accountant or other senior official considered suitable. The P&AO was to supply a cheque book to the Examiner and the cheque bearing the pay order encasement and the cheque book was to be sent to the P&AO in a box under lock and key for signing the Pay Order and the cheque. The passed bill was to be retained by the P&AO and the cheque returned in a box to the Examiner for delivery to the DDO. A detailed revised accounting procedure consequent on placement of DDO functions and the Cash Branch with the Controller of Accounts Organisation under the overall charge of the Financial Adviser was issued by the Controller General of Accounts.
- (ii) The scheme as originally introduced did not provide for any change in the then existing cadre composition of the Cash Branch for the time being. In other words, all matters relating to cadre control viz. promotion, transfer, deputation, discipline and vigilance of the officials in the Cash Branch were to continue to be dealt with by the Cadre Controlling Authorities concerned. It was expected that in due course, the Cash Branch and DDO which were to function under the Controller of Accounts would be manned by qualified Accounts personnel. It was also expected that it would lead to a reduction of about 250 personnel who

could be absorbed against other vacancies in due course. However, this has not happened. Even though the Cash Branch/DDO come under the technical control of the Controller of Accounts, the administrative control continues to be with the Joint Secretary(Admn.) of the Ministry. It is reported that postings and transfers of personnel in these Branches are very frequently made and on many occasions without the knowledge of the Controller of Accounts. Thus, while on the one hand, the system of pre-check by the Departmentalised Accounts Organisation has been dispensed with, the Accounts records are being maintained by people who are not fully conversant with the Accounts work. The responsibility for pre-check now vests completely with a Checker who is generally of the level of UDC and the P&AO merely signs the cheque without exercising any scrutiny on the claim itself. The working of the Cash Branch/DDO is subject to post-check only by the Internal Audit Organisation.

- (iii) Even at the inception of the Departmentalised Accounting arrangement, the C&AG had expressed reservations about the system of post-check introduced for DDOs with cheque drawing powers. It is necessary to reproduce the observations made by the C&AG at that time:-

"It was pointed out to Government that post-check would tend to be perfunctory as there would be no responsibility for any erroneous payment nor would there be any urgency for completing it on the part of the organisation entrusted with the responsibility for post-check. In pre-check, irregular expenditure is kept to the minimum and the quality of Accounts is expected to be distinctly superior."

The above observations of the C&AG apply with much greater force to the above scheme where a system of effective pre-check has been dispensed with and the Accounts are being maintained by those who are not fully competent to do so. We apprehend that if this state of affairs is allowed to continue, there are grave risks of improper/irregular maintenance of Accounts with possibilities of over-payments. This may become all the more

serious if the over-payments are made in the final settlement cases like Provident Fund, Gratuity etc. In fact, in response to our questionnaire, many of the Departments have suggested further strengthening of the Scheme. It has also been pointed out that the existing policy of vesting the administrative control with the Administration and technical control with the Controller of Accounts has created functional problems.

- (iv) The existing duality of control and dilution of pre-check system by not entrusting it to qualified Accounts personnel at appropriate levels is unsatisfactory and should be done away with. It is absolutely essential that the Cash Branch and the DDO should be made a part of the Controller of Accounts Organisation in all respects in all the Ministries/Departments without exception and we recommend accordingly. We also recommend that all the posts in the Cash Branch/DDO be manned by qualified Accounts personnel belonging to the departmental Accounts Organisation only within a period of 2 years.
- (v) We note that the above scheme has been introduced in the secretariat of all Ministries/Departments except the Ministry of External Affairs, Cabinet Secretariat and the Ministry of Women and Child Development and only partially in the Ministry of Information and Broadcasting where the duplication of work and records continues. We do not see any justification for not introducing or fully introducing this Scheme in these Ministries/Departments. We recommend that the Ministry of Finance should ensure its implementation in these Ministries/Departments also without further delay.

(g) Maintenance of Accounts - General

- (i) The Committee is concerned to note that there are several posts in Ministries/Departments where accounts personnel should be utilised which are now held by unqualified personnel. As a general principle, we would recommend emphatically that the responsibility of maintenance of accounts should be entrusted only to personnel drawn from the Accounts Cadres.

(ii) Our particular attention has been drawn to the functioning of our Missions abroad where several Posts specifically created for accounts work are being manned by non-accounts personnel of the Ministry of External Affairs. We have been informed that the Foreign Secretary has had occasion recently to address the Missions on the need for strict financial discipline. He had expressed his distress at the financial irregularities such as excess payments, unauthorised/ excess expenditure and failure to observe administrative and financial norms and procedures and to maintain records correctly. On the other hand, several Heads of Missions have complained of the non-availability of qualified accounts assistance. We find that there are several Missions with an annual expenditure and receipts exceeding Rupees two crore. We recommend that in each such Mission, accounts staff of appropriate levels drawn from the Departmentalised Accounts Organisation should be positioned.

(h) Internal Audit

- (i) The Yardi Committee had envisaged that there would be an effective Internal Audit Organisation which would relieve the statutory Audit of the burden of going into minor details so that it could concentrate on major issues. In the new set up, the Internal Audit Organisation functions under the control of the Head of the Accounts Organisation with the overall responsibility being that of the Financial Adviser of the Ministry/Department concerned. The Principal Accounts Office, the Pay & Accounts Offices as well as the Offices of the DDO are within the jurisdiction of the Internal Audit. This Organisation also checks the initial Accounts maintained in the executive offices to see that they follow the rules and regulations and systems and procedures regarding accounting and financial matters.
- (ii) We note that the Internal Audit has mainly confined itself to ensuring compliance with the prescribed rules, regulations and procedures. In other words, Internal Audit has largely concerned itself with the regularity of payments and has not achieved the role envisaged by the Yardi Committee. We have examined this matter in greater detail in Chapter VI.

## CHAPTER IV

### ACCOUNTS AS A TOOL OF MANAGEMENT

#### A. OBJECTIVE

4.1 An important objective of separation of Accounts from Audit was to make accounts an effective tool of management. Indeed, this might even be considered to have been the principal objective. Prompt settlement of personnel claims and timely flow of conventional accounts figures, though objectives, could conceivably have been secured even without separation of Accounts from Audit; but accounts could not become an effective tool of management without departmentalisation, that is, without the integration of the accounting system within the management function.

#### B. EVIDENCE FROM MINISTRIES/DEPARTMENTS

4.2 The Committee has given much thought to the question of how accounts could become an effective tool of management in Government. The matter was also discussed at length with almost all the persons who met the Committee. The written replies received from the Ministries to the Questionnaire were fairly unanimous in declaring that timely and accurate accounts were being received. But neither in the written nor oral evidence was there any explicit indication of how this timely and accurate data was being or might be used as an effective tool of management.

4.3 A few Departments were frank enough to admit that this purpose was not being very well served. The Department of Industrial Development stated that the system could not generate financial information for monitoring schemes as the accounts format was not geared for the purpose. The Department of Surface Transport stated that the full objective of accounting as a tool of management was not achieved as the system was not equipped or geared to take up financial review of schemes. The Department of Power stated that account heads did not correspond with the projects and, hence, monitoring was not possible. The Department of Mines stated that the separation of accounts from audit had had no impact on the working of the Geological Survey of India. The Departments of Education and Culture stated that the accounts organisation could not provide any data for formulation of new schemes. The Director General (Works) stated that

as the accounts were prepared Pay & Accounts Circle-wise, they did not help in the review of on-going schemes and that the necessary information had to be gathered through separate Departmental channels. The Department of Rural Development stated that the Administrative Divisions had their own figures and were not dependent on accounting figures. The Department of Food stated that purposeful review of ongoing schemes and better formulation of new schemes was not possible under the present set-up.

4.4 The Controller General of Accounts stated that it was for the administration to decide on the information required which could then be generated.

4.5 The Committee felt that it was a matter of concern that fourteen years after the departmentalisation of accounts, nothing tangible had been done to make accounts an effective tool of management. It was one of the prescribed functions of the Controller General of Accounts to co-ordinate and assist in the introduction of the Management Accounting System in the Central Ministries/Departments. A sorry situation appears to have prevailed with the Controller General of Accounts waiting to be asked and the Management not knowing what to ask for.

### C. ADVISORY COMMITTEE 1976

4.6 Delving into the old records, the Committee discovered that the Ministry of Finance in a Resolution gazetted on 3rd November, 1976 had declared:

"The major objective of the departmentalisation of accounts is to improve the financial competence of the Ministries and Departments and make accounts an effective tool of management using timely and accurate flow of financial and accounting information for programming, budgeting and evaluation of various activities and for the optimum utilisation and efficient monitoring of resources. In order to fully utilise the potential of the new accounting organisation, Management Accountancy System should be evolved on suitable lines in Government. A comprehensive Management Information system should also be built up .....for the proper interpretation and utilisation of accounting data for the purposes of policy formulation, effective utilisation of funds and achievement of maximum efficiency at optimum costs."

The Finance Ministry set up an Advisory Committee under the Chairmanship of the Finance Minister to make recommendations regarding



Management Accountancy concepts and Management Information Systems (MIS). A sub-group of this Committee took up the preparation of what were intended to be model MIS for the Ministries of Chemicals & Fertilizers, Works & Housing (CPWD) and Agriculture (Command Area Development). These MIS were approved for adoption by the Advisory Committee in 1978, 1979 and 1982 respectively.

4.7 It was expected that other Ministries would develop MIS based on these models. But, as stated in a background note placed before the Advisory Committee in 1982, no significant progress was made, possibly because of

"(i) inadequate appreciation at higher levels of the need for developing integrated information systems and lack of enthusiastic support from Secretaries of the Ministries concerned.....

(ii) pre-occupation of senior officers in the Ministries with other important works."

4.8 The Advisory Committee was wound up thereafter, presumably in the expectation that the impetus provided by the model MIS set up in three Departments would lead to adoption of MIS and supporting management accountancy systems wherever appropriate in the other Ministries and Departments. In effect, not only was there no such development, but the MIS adopted in the three Ministries/Departments appears to have fallen into disuse and have withered away.

#### D. PERFORMANCE AND ZERO-BASED BUDGETING

4.9 The Advisory Committee's terms of reference also included performance budgeting and management accountancy. According to the note placed before the Advisory Committee in 1982 "even though the Ministries/Departments had been preparing Performance Budgets .... for the last ten years, it has yet to develop into an effective management tool for administrative and financial control ..... Performance Budgeting can be meaningful only after standards and norms for measuring performance are established and proper management information systems developed for monitoring performance against targets."

4.10 Performance budgets are still prepared. They are at best informative, narrative companions to the Budget but with little value as tools of Management for the reasons already identified by the Advisory Committee.

4.11 In 1986, there was another attempt by the Department of Expenditure at improving expenditure control: it was decided to introduce Zero Based Budgeting (ZBB). In his letter of 10th July, 1986, the Secretary (Expenditure) explained that ZBB would require:

"identification and sharpening of objectives; selecting the best alternative through cost-benefit and cost-effectiveness analysis; prioritisation of objectives and programmes; switching of resources from programmes of lower priority to those of higher priority; and, identification and elimination of programmes which have outlived their utility."

4.12 The Secretary(Expenditure) went on to state that with the adoption of the ZBB approach, the Performance Budget document could be further refined-so-as to increase its usefulness. He mentioned that workshops and seminars would be held to train key officials in ZBB techniques.

4.13 Our enquiries revealed that this initiative did not result in any significant economies and appears to have been still born. It is probable that no meaningful exercises could be carried out without the support of information systems and accounting data systematically presented to provide the basis for analysis of the efficiency and effectiveness of expenditures which were being incurred.

## E. PROFORMA ACCOUNTS

4.14 It is of interest to note that rudimentary management accounts are provided for even in the existing accountancy system. This is the requirement that Departments of the Government which are responsible for commercial or semi-commercial functions should maintain proforma accounts which will bring out the economics of generating the services they provide. A Committee which was set up to review the General Financial Rules, Central Treasury Rules and Account Codes reported in 1985 that "over the years many departments have fallen into arrears in preparation and maintenance of proforma accounts. We suspect that such organisations do not really have genuine commercial bias in their operation...." The Committee recommended that simplified proforma accounts be maintained so as to permit at least of the monitoring of the cost of their operations in organisations such as the Government Security Press and AIR Publications. However, the Committee felt that such proforma accounts need no longer be attempted in respect of "the Central Government Health Scheme, Famine Relief Fund, Central Government Residential

accommodation and such units because the cost of their operation has... no genuine relevance."

4.15 We consider this to be a surprising statement. We trust that the Government's acceptance of the Report of this Committee will not be interpreted as acceptance of the view that organisations such as the Government Security Press etc. need not have a commercial bias and that there has been some dilution of the policy set out in the Ministry of Finance Resolution of 3rd November, 1976 which proclaimed the objective of achieving "maximum efficiency at optimum costs" in all areas of Government activity.

#### F. MANAGEMENT ACCOUNTANCY

4.16 Since MIS, Performance Budgeting and Zero Based Budgeting are not within the terms of reference of this Committee, it may not be clear why the development of - or failure to develop - these systems effectively is being described at such length and what the connection is with management accountancy. Management accountancy may be described quite simply as a presentation of accounting data in terms which can assist management. In Government, it will largely involve analysis and identification of costs - not merely current cash flow but costs in toto including depreciation of assets, costs of services and assets provided by other departments, costs of maintaining stores, costs of stores utilised but purchased in past periods, adjustments for inflation or hidden subsidies, if necessary, and accrual of future liabilities - and relating such costs to activities, functions and objectives. In this process, options can be evaluated, wasteful activities are identified and decisions may be taken in full knowledge of the costs and benefits involved. There is an impact too on the quality of management; indeed, it has been well said that a manager who has no means of measuring his performance is unlikely to be able to optimise his efficiency.

4.17 Such analysis and presentation of accounting data is meaningful in relation to objectives and activities. It is generated in response to management systems installed for the purpose of monitoring, evaluation and control, i.e. systems such as Management Information Systems and Performance Budgets or for the creation of responsibility centres, or the setting of targets and the quantification of objectives.

4.18 It is fairly clear that the objective of developing management accounts and thereby making accounts a tool of management has not been achieved in

any tangible measure, To a large extent this is, as already mentioned, because of the failure to develop the systems which management accounts would have sub-served. It was suggested by the Advisory Committee that this failure was because of inadequate appreciation at higher levels of the need for developing such systems. But this is perhaps an inadequate explanation. What was sought to be achieved by the setting up of the Advisory Committee in 1976 was not merely the development of some kind of data bank to be drawn on when occasion required, but a modernisation of the culture of management which would learn to demand and use a continuous flow of analysed information relevant to the various aspects of management. The intention was to focus attention on key areas, to provide timely warning of slippages and bottlenecks and to forecast expenditure more precisely against estimates. In course of time, this would have led to development of performance indicators and measures of output in relation to costs, increasing cost consciousness and greater concern for efficiency and effectiveness in the use of resources.

#### G. MODERNISATION OF FINANCIAL MANAGEMENT

4.19 The lesson to be learnt from what has happened is that such far reaching purpose cannot be achieved, or even effectively initiated, by the mere prescription of a few model forms for information gathering, or by occasional exhortation. If a new culture is to be developed, it has to be nurtured assiduously till it has firmly taken root. New systems require expert installation and maintenance and continuous modification and refinement until requirements are satisfactorily met. The inevitable resistance to change based on lack of knowledge, vested interests and apathy has to be overcome. What is required is a combination of

- (i) Continuous expert centralised prescription and guidance from the Ministry of Finance with a major contribution and initiative from the Controller General of Accounts and, from time to time, as necessary, from experienced consultants.
- (ii) Special training of the accounts cadres whose current training provides them with the potential but is not adequate to enable them to develop management accounts in support of various modern processes of management.
- (iii) Training of all concerned with using the management systems and accounting data - in particular those in the Finance Departments.

The table below indicates the number of supervisory posts sanctioned for the Budget and Finance Wings in the Central Ministries/Departments and Service to which the present incumbents belong:

Designation	No. of posts	IAS	Organised Accounts Services	CSS	Other Services
Addl. Secy.	3 (1 vacant)	1	6	-	-
Jt. Secy.	20	3	11	6	-
Director	19	2	6	7	4
Dy. Secy.	22 (1 vacant)	-	7	10	4
Under Secy.	57	-	4	42	11
Total	126	6	34	65	19

The Committee was surprised to note that over 50% of the officers currently in the Finance Departments did not belong to any cadre, which had received systematic training in finance and accounts. This must necessarily lead to a very low receptivity to modernisation of management systems.

- (iv) Development of internal audit, not merely the routine "tick and turn" audit and the audit of expenditure against regularity, but what has been termed "Value For Money" audit. Such audit utilises management accounts, information systems and other data to evaluate the efficiency with which resources are utilised (the maximisation of output relative to input) and the extent to which the objectives are achieved without necessarily any questioning of such objectives.
- (v) A commitment by senior management to making the new systems work by their visibly and continuously using the systems to good purpose. Specific training of senior management would undoubtedly be called for to secure such commitment.

4.20. It is not suggested that with the lack of management information systems and management accounts, there has been no modernisation of financial management. In the last ten to fifteen years, notable proficiency has been attained in project evaluation techniques under the impetus of the setting-up of the PIB, the posing of projects for World Bank financing and the work being done by the Project Evaluation groups in the Planning Commission and in Public Sector Undertakings. But that apart, by and large the culture of financial scrutiny has undergone little change: it still remains preoccupied with the quantum of expenditure rather than its efficiency, form rather than substance, conformity with prescribed procedures and a somewhat ritualistic application of the General Financial Rules.

## H. EXPERIENCE IN THE UNITED KINGDOM

4.21 We would draw attention in this context to work which has been and is being done in the UK during the last eight years with the launching in 1982 of what was termed a Financial Management Initiative. The objective has been stated to be the promotion of organisation and systems in which managers at all levels will have:-

- "(a) a clear view of their objectives; and means to assess and, whenever possible, measure, outputs or performance in relation to the objectives;
- (b) well defined responsibility for making the best use of their resources, including a critical scrutiny of output and value for money; and
- (c) the information (particularly about costs), the training and the access to expert advice which they need to exercise their responsibilities effectively."

4.22 The UK Treasury and the Management and Personnel Office provide direction and coordination through their Joint Financial Management Unit. The Head of the Government Accountancy Service (a position somewhat similar to our Controller General of Accounts) has "a direct operational responsibility" in promoting the reform of Financial Management. In evidence before a Parliamentary Committee, Sir Kenneth Sharp, then Head of the Government-Accountancy Service, explained that he considered it his duty to assist management to identify their needs, to encourage a greater sense of numeracy and a greater feeling for "how much something costs."

4.23 The Ministries/Departments of the UK are required to report periodically to Parliament the progress made in pursuance of the Financial Management Initiative and the savings and economies achieved as a result thereof.

4.24 A significant statement made before the Parliamentary Committee by Sir Robert Armstrong, then Head of the Management and Personnel Office (and later Secretary to the Cabinet) is worthy of note as indicating the impact of the Financial Management Initiative. He said

".... it is probably true that .... Civil Servants have tended to find policy work more glamorous and more interesting than management work. That has changed a good deal..... They are much more conscious of the need to manage departments, much more interested in doing so and finding..... that it is not second class boring kind of work that they thought but actually extremely interesting and productive of results."

4.25 Taking into consideration that there is much similarity in form of Government between the UK and this country and that introduction of management concepts into Government is a slow and difficult process, involving considerable trial and error, it may be well worth obtaining detailed information of the UK experience and examining its applicability in our situation.

## I. UTILISATION OF ACCOUNTS CADRES

4.26 The modernisation of financial management, the adoption of information systems and management accountancy, the development of performance indicators etc. is necessarily a gradual process. Systems have to be tailored to the needs of each organisation and it has to be ensured that the cadres who will maintain and use the systems are adequately trained to do so. We would hope that Government will consider proceeding on the lines we have suggested above. In that expectation and confining ourselves more precisely within our terms of reference, we make certain recommendations which would lead to utilisation of accounts as a tool of management. We understand this objective to be a part of the larger objective of improving the quality of financial management. We, therefore, believe our recommendations should include measures for better utilisation of the accounts cadres which have been formed to maintain the departmentalised accounts and to carry out internal audit. Such better utilisation, we believe, will prepare the ground for the development and

acceptance of management accountancy and play a catalytic role in the effective integration of accounts into the financial management system.

4.27 To go back again into the history of the separation of Audit from Accounts, we find that Yardi Committee had recommended constitution of a centralised Finance & Accounts Cadre. This idea was apparently not pursued by the Ministry of Finance. It has been argued before us by the ICAS Association that real integration of accounts in the Finance Department can take place only if the function of Controller of Accounts is combined with that of Financial Adviser - in other words, that all senior posts in the Finance Departments should be encadred in the ICAS. We understand that the policy of Government is to keep the senior posts in the Finance Department within the Central Staffing System - which means they will be open, on a tenure basis, to officers of all cadres who have the required experience. This is an organisational matter and has been dealt with in paras 7.5 to 7.11 of Chapter VII. However, it is surely time to accept the fact that financial administration in the Ministries which is at the cutting edge of the finance role, involving evaluation of proposals, monitoring of expenditure and maintenance of financial and management accounts, can no longer be treated as a generalist function. If the Financial Adviser and his staff do not have financial training and experience superior to that of those whom they advise, there can at best be the dubious comfort of two heads being better than one. What is required from the Financial Adviser is identifiable specialist input which will contribute to more effective management in Government. There will, therefore, be need for special emphasis on appropriate intensive experience and training of officers appointed to the Finance Departments since these officers will have to work with or supervise an Accounts Organisation and Internal Audit and also to provide leadership in the progressive modernisation of Financial Management.

#### J. BUDGET SECTIONS

4.28 There are, however, areas in the Finance Departments which should appropriately be placed within the purview of the Departmental Accounting Organisation. As far back as 1981 the Government took steps in this direction. A



letter dated 4-5-81 from the Secretary(Expenditure) to all Secretaries states as follows:

1. A major objective of separation of Accounts from Audit in 1976 was to improve the financial competence in the Ministries and to make Accounts an effective tool of management. It was expected that the availability of financial and accounting information within the Ministry would be of great assistance to the Financial Advisers and the Secretaries in the discharge of their numerous responsibilities.

2. The question of making better use of the experience and expertise of the Chief Controllers/Controllers of Accounts by the various Ministries has been engaging our attention. It is considered that since the Pay & Accounts Offices are now reasonably well established and operational, it should be possible to make a still better use of the system and the manpower available.

3. It is, therefore, suggested that the budget work of the Ministries/Departments, now supervised by officers of the Administrative or Finance side (e.g. Dy. Financial Adviser/Dy. Secretary(Budget)) may henceforth be entrusted to the Controller/Chief Controller of Accounts. The Ministries/Departments which have a Chief Controller of Accounts as well as a Controller of Accounts could also consider entrusting to them some finance work, in consultation with the Financial Adviser."

4.29 In his Inaugural address at the Second Conference of Chief Controllers of Accounts, the then Finance Minister, Shri Vishwanath Pratap Singh, stated:-

"I have noted the emphasis placed by the Controller General of Accounts to the importance of closer involvement of the Accounts Wing in different Ministries with the mainstream of departmental activities. I myself feel that no organisation, leave alone financial administration, can succeed in an environment of compartmentalisation and isolation of one wing from the other. I would like to consider what specific steps should be taken by Government to bring about a fully harmonised financial administration in all departments of Government of India. The Managers of Accounts, who have the responsibility for creating a base for financial information, have to be fully associated with the activities of the departments, particularly those relating to planning, budgeting, expenditure control and monitoring."

4.30 It is surprising that the directions of the Ministry of Finance have been carried out in a very few Ministries/Departments, i.e. the Ministry of Labour, the Department of Atomic Energy and the Planning Commission. The Ministry of Labour has stated that the Budget and Accounts Sections function under the Controller of Accounts and that this has resulted in greater coordination between the Accounts and the Budget wings. In the Planning Commission and the Department of Atomic Energy also, the Budget Section functions under the Controller of Accounts.

4.31 Most of the Ministries/Departments in response to our Questionnaire stated that they felt that there was much merit in the Budget Section being placed under the Controller of Accounts. A few however, had reservations on the ground that budgeting was a 'financial' rather than an 'accounting' function - which we feel rather misses the point. A few mentioned administrative problems and we are inclined to believe that the reluctance to act on the directions of the Ministry of Finance has been largely on account of administrative/cadre problems as in the case of the Merged DDO Scheme.

4.32 In his communication on this point to this Committee the Secretary (Expenditure) has stated as follows:

"In an ideal setting, Accounts and Budget are inseparable. There are, however, practical difficulties on account of current procedures for manning secretariat posts. Pending a fundamental review of the existing system, the best course would be to take administrative measures whereby Accounts formations in the Ministries and the CGA's office (in so far as Budget Division of Ministry of Finance is concerned) are intimately and formally involved in the preparation of Ministries' and Union Budget and subsequent monitoring of expenditure against allocations. Such arrangements must be backed by formal procedures calling for consultations with Accounts Units at every stage of Budget preparation including projections of cash flow requirement and subsequent monitoring of progress of expenditure/realisation of revenue against such projections."

4.33 We consider that there would be great advantage in the Budget Section being placed under the Controller of Accounts and progressively manned by personnel from the Accounts Department. On the one hand, professional management of this important function would lead to greater initiative in bringing about improvements and greater receptivity to change. On the other, there would be increased coordination between the Accounts wing and the Budget Section. In course of time the role of coordinating the preparation of a

meaningful Performance Budget should be taken up by a special group in the Budget Section which would work closely with the management accounts group in the Accounts Wing.

4.34 We do appreciate that there may be administrative difficulties in bringing the Budget Sections under the supervision of the Accounts Organisation. "But the fundamental review of the existing system" referred to in the communication from the Secretary (Expenditure) may not take place for some time. In the meantime, half measures cannot lead to efficiency. We would recommend, therefore, that a clear time bound plan of action be adopted. In the first instance, the Budget Sections in all Ministries/Departments should be placed immediately under the Chief Controller/Controller of Accounts. Thereafter, within one year, all staff in the Budget Sections should be those borne on the Accounts cadre. This would take place either by replacement of existing incumbents (or filling of vacancies arising by retirements), by accounts personnel or by permanent secondment of those among the existing incumbents who are suitable and willing to the Accounts Cadre. All Officers and staff should be required to undergo special training on which recommendations are made in another section of this Report.

4.35 It has been suggested that it should logically follow that the Budget Division in the Department of Economic Affairs should come under the supervision of the Controller General of Accounts. We do not agree that this would be necessary or desirable. The preparation of the national Budget and work arising therefrom goes well beyond forecasts and monitoring of receipts and expenditure. There is a considerable economic input and interaction with Parliament, the banking system, national and international, and with the State Governments. Traditionally, the Budget Division has been manned by officers and staff, carefully selected on the basis of experience and ability from the Accounts Services/Departments and undoubtedly this practice will continue. The Budget is a major responsibility and preoccupation of the Secretary, Department of Economic Affairs and we do not think it would be constructive to interpose the Controller General of Accounts between the head of the Budget Division (Jt. Secretary or Addl. Secretary) and the Secretary. We understand that procedures already exist for the flow of information from the CGA and other Accounts organisations to the Budget Division, and these may be strengthened as may be necessary.

## K. Monitoring and Control

4.36 The Finance Minister's advice to the Conference of Chief Controllers of Accounts referred to in para 4.29 did not, we understand, lead to any proposals for extending the scope of responsibilities of the Accounts Organisation.

4.37 Several years ago, in a letter dated 2nd March, 1979, Shri Ramaswamy R. Iyer, then JS&FA in the Ministry of Chemicals and Fertilizers, wrote to the Controller General of Accounts urging an active role for the Accounts Unit in the Management Information System of the Ministry. He wrote that "It would be quite an appropriate agency for reviewing any financial progress statements received from the Public Sector Units..... The F.A.....needs assistance in the analysis of proposals; he could make good use not only of the Finance Branch but also of the Accounts Unit... It is only by stretching and extending the functions of the Accounts Unit in this manner that the F.A. can shape it into a useful managerial instrument and make the twin reforms carried out by the Finance Ministry (the Departmentalisation of Accounts and the Integrated Financial Adviser Scheme) reinforce each other.

4.38 We are not aware that any action was taken on an institutionalised basis, to act on the lines of this recommendation, but some of the Secretaries and F.As' who met this Committee did mention instances of their having utilised the Accounts Units, or officers of those Units, on an ad hoc basis for particular tasks with much satisfaction.

4.39 In response to our Questionnaire the Secretary(Expenditure) has stated: "I agree entirely that areas of responsibility of ICAS Officers working in cadre posts must be significantly enlarged to make the best use of their specialisation and experience.... In determining specific areas.... the objective of ultimate integration of all finance administration functions should point the way for gradual enlargement of their work content.... (the) Accounts set up in various Ministries is a vital component of financial administration. Every step to remove their isolation from the mainstream...., to enlarge their responsibilities and to heighten their morale would be in the best interest of financial administration."

4.40 We have also been greatly impressed by the evidence given to us by some of those who met the Committee, in particular Shri R.R. Gupta, former Secretary(Expenditure) and Shri Badal Roy, former Secretary(Labour), to the effect that the optimum utilisation of the accounts cadre and the accounting data they compile, could best be secured by allotting executive responsibilities to the accounts organisation which would motivate the accounts organisation to derive from the accounting data available with them, such analysis and refinements as

may be necessary. It was also pointed out to us by several witnesses that the pressure of work on the Financial Adviser and his deputies on the Finance side was so great that there was a tendency to neglect the monitoring function, i.e. the emphasis was predominantly on work relating to examination and clearance of proposals/schemes and projects leaving insufficient time for follow up, review and evaluation.

4.41 It appears to us that this is an area of work for which the accounts cadre with links to the Accounts Wing and the Budget Section would be eminently suited. The work would include -

- (a) association in monitoring of progress of schemes/projects and expenditure to facilitate a schematic review;
- (b) association in appraisal of functioning of departmental and grant receiving bodies including appraisal of directly funded schemes;
- (c) analysis of financial data provided by PSUs;
- (d) release/obtaining approval for release of funds to Public Sector Undertakings and other bodies;
- (e) coordination of MIS, installation, maintenance, updating;
- (f) specialist accountancy services as may be required e.g. for vetting of cost estimates, pricing studies, viability studies etc., with reference to accounting data on other/previous projects;
- (g) coordination of disposal/follow up action on audit paras, queries from the C&AG or internal audit, PAC/Estimates Committee/Committee on Public Undertakings reports.

4.42 We believe that the handling of these areas of work under the supervision of the Controller of Accounts and the manning of all posts by officers of the accounts cadre appropriately trained, would lead to the demand for information systems and management accounts and thus prepare the ground for the introduction of modern management techniques.

4.43 In consideration of the responsibilities proposed to be placed on the Chief Controller/Controller of Accounts, we consider that it would be appropriate to designate him as Financial Controller. We understand that this designation is

already in use in the Ministry of Civil Aviation. Designations are important psychologically and it is necessary that a designation should describe as accurately as possible the function being performed. We consider that the designation of Financial Controller would greatly help in bringing the accounts organisation into the mainstream of the work of the Ministries. The Financial Controller will, however, continue to function under the supervision of the Financial Adviser of the Ministry/Department.

#### L. INTEGRATION OF FIELD OFFICES

4.44 The discussion in the preceding paragraphs has related to the integration of the Accounts organisation with the work in the Ministry. It is equally, and perhaps, more important that such integration should take place down the line, in the field formations, so as to promote the use of accounts as a tool of Management at all levels.

4.45 Attached or subordinate to the Ministries are the large Directorates General such as the DG (Works), DG (S&D), DG (GSI), DG (I&D) and DG (HS). Pay and Accounts Officers compile the accounts relating to these organisations but are not involved in day-to-day management. In the case of the DG (Works), perhaps the largest spending agency among the Directorates General, the question of integration of the accounts organisation has been gone into, *inter alia*, by the IIPA (Report on Performance Budgeting in the CPWD, 1972) the Ranganathan Committee (1976) and the Advisory Committee (MIS for the Ministry of Works and Housing, CPWD, 1979) but their recommendations have not been acted on.

4.46 In his evidence to this Committee the Director General of Works (Central Public Works Department) has stated that :

- (a) The accounting information compiled by the PAOs' is zone-wise and head of account wise. For review of scheme expenditure and progress, data have to be collected from within the department.
- (b) Computerisation in the Controller of Accounts office is not linked to the computer system in the divisional accounts office.
- (c) Attitudinally, the Accounts organisation appears to consider their role to be the maintenance of accounts *per se* and not to provide a service to Management.

4.47 The Advisory Committee (1979) in its report on the introduction of MIS in the CPWD stated as follows:

- (a) "The departmentalisation of accounts in the CPWD has made little difference in the accounting system or in the relationship - functional and attitudinal - between the accounts and the executive."
- (b) "In the result, the accounts organisation continues to function as an external agency preoccupied mainly with compilation of accounts, whereas parallel records are maintained by the executive to meet their requirements."

4.48 The Advisory Committee recommended that the Zonal PAO should report to the Chief Engineer (CE) for day to day administration and should also function as his F.A. Similarly the CA (CPWD) should function as F.A. to the DG (Works) and report to him for day to day administration. The existing posts of Finance Officer attached to the CE's and DG(Works) would be absorbed in the accounts organisation at the appropriate levels.

4.49 The Divisional Accountant in the office of the Executive Engineer (EE) reports to EE and is part of the divisional staff although he belongs to the cadre controlled by the CA. What was recommended is a similar integration at the level of CE and DG(W), with cadre control remaining with the Controller General of Accounts.

4.50 The Committee endorses and reiterates the recommendation of the Advisory Committee and urges early implementation. The Committee also endorses the recommendation of the Advisory Committee that in the new set up the CA/PAO should be redesignated as FA&CAO and Asstt. FA&CAO respectively.

4.51 We have not examined in detail the situation in the other Directorates General. But we recommend that, *mutatis mutandis*, the same principles should apply and the accounts organisation should be integrated in the other Directorates General or any similar organisations.

4.52 The Integration, we recommend, would lead to saving in time and effort by dispensing with the maintenance of parallel sets of records and in maximising the utility of computerisation. The Accounts organisation would be closely involved in monitoring and budgeting and would respond with the data required for this purpose and for developing the information systems.

## M. MISCELLANEOUS ACCOUNTS UNITS

4.53 There are certain units in the Government where accounts have been maintained departmentally even before the separation of Accounts from Audit in 1976. The personnel employed for this work are mainly drawn from the Central Secretariat cadre and do not have any formal training or qualification in accounts. We have not examined the working of these units and it is entirely possible that they are functioning satisfactorily because of the experience of the persons involved. However, since there are, since 1976, in-house organised Accounts cadres, it does seem appropriate and desirable that the persons working in those units should be absorbed in the Accounts cadres, if willing and suitable, so that they may have the benefit of the guidance, training and variety of exposure which then becomes available. Simultaneously, the induction of qualified and experienced officers and staff from the Accounts cadres into these sections will surely open the doors to modernisation and closer integration of Accounts with Management. It is possible that there will be cadre problems as in other areas, in giving effect to this recommendation but we urge that these should be overcome and a time bound programme adopted for implementation. The sections we have in mind are listed below but there may be others to which the same principle should apply:

- (i) Controller of Aid Accounts and Audit in the Department of Economic Affairs;
- (ii) Director of Accounts, Department of Fertilizers;
- (iii) Fertilizer Industries Coordination Committee (A/cs Wing) in the Department of Fertilizers;
- (iv) Accounts Wing in Para military organisations in the Ministry of Home Affairs, i.e. BSF, CISF, ITBP;
- (v) Accounts Wing in Special schemes in the Cabinet Secretariat.
- (vi) Accounts Wing of Directorate of Audio and Visual Publicity.



## CHAPTER V

### INTERNAL AUDIT

#### A. EXTERNAL AND INTERNAL AUDIT

5.1 "External" and "Internal" audit are terms which have originated in the corporate sector. In the case of companies 'external' audit is carried out for a fee by an independent firm of certified accountants and the purpose of such audit is to report to the shareholders (who are the owners) whether the Balance Sheet, Profit and Loss Account and other statements indicate a true and fair financial position of the company. 'Internal' audit, on the other hand, is generally conducted by employees of the company. Internal audit is intended to serve the Management. In the early years, its role was mainly the detection or prevention of fraud. Later, it was seen as a means of reducing the load on the external auditor and thereby also reducing the fees payable. But increasingly, in western countries and in better managed companies the world over, internal audit has moved beyond merely ensuring "compliance" to "serving management's need for an informed, independent review of operations." Such audit is variously termed as "operational", "management", "efficiency-cum-effectiveness" and "value for money" audit.

5.2 In Governments, the supreme audit authority (by whatever name designated), usually a body independent of the executive, is the statutory or "external" auditor and reports to the Legislature. Departmental (or internal) audit is also conducted. But the scope and nature of audit carried out by the "External" and "Internal" auditors are not as clearly distinguishable and do not necessarily follow the pattern as in the corporate sector.

#### B. EXPERIENCE ABROAD

5.3 In the USA, it is reported that the General Accounting Office (GAO) has "invested considerable resources to reviewing efficiency and effectiveness in Government" and that "there has been a corresponding effort within the Executive." Financial auditing which had been the main function of the GAO in the first quarter of the century, was only 7% of its workload in 1980 resulting in a sharp reduction in its staff but an increase in professional personnel.

5.4 In Canada, "comprehensive auditing" has been introduced whereby programme evaluation is carried out by Departments and "monitored" by the Auditor General on behalf of Parliament and the Comptroller General on behalf of the Executive.

5.5 In Sweden, the National Audit Bureau concentrates on effectiveness audit while financial audit is left to internal auditors.

5.6 In the U.K., the Comptroller and Auditor General reports to the Parliament on the efficiency and effectiveness of the Government's programme. But departmental reviews are also carried out intensively. The Ministry of Defence has created a Directorate General of Management Audit bringing together management services, staff inspection and internal audit and uses mixed discipline teams to review complex issues.

### C. INTERNAL AUDIT IN CENTRAL GOVERNMENT IN INDIA

5.7 In India, upto 1976, internal audit had been carried out only in the Defence and Railway Ministries by their departmental accounts organisations. The "external" audit of these Ministries by the Comptroller and Auditor General has been restricted to what is termed as "Test Audit". The CAG of India also carries out such reviews as he considers necessary of schemes, sanctions and contracts.

5.8 In its report the Yardi Committee (Annex 'G') had recommended a re-division of attached and field formations of each Ministry into Accounts Circles. Each Circle was to play a pivotal role and be headed by a Finance Officer of an appropriate status who would not only render financial advice to the executive authorities in that Circle but also conduct inspection of accounts and carry out appraisals of performance. In addition, each Ministry was to set up an Internal Audit Wing. The Accounts Circle was to form the forward base of the Internal Audit teams. With the introduction of effective internal audit, the Yardi Committee anticipated that the Comptroller and Auditor General of India could be relieved of the burden of routine auditing. The Yardi Committee also visualised that Internal Audit would carry out propriety-cost-efficiency audits and have the benefit of the services of Cost Accountants. Accordingly, Internal Audit units were created in 1976 in each of the Central Ministries/Departments of the Government of India in which accounts were departmentalised. The staff was sanctioned on an ad hoc basis. In addition to

the Internal Audit Units in the Ministries, there are two units in the office of the Controller General of Accounts. One unit conducts audit of the accounting practices of the Pay & Accounts Offices. The other unit audits Government transactions in banks, the object being to ensure prompt rendering of accounts and expeditious remittance of revenue collected to the RBI.

5.9 The guidelines issued by the Controller General of Accounts in September, 1977 and further amended in January, 1981 define the scope of Internal Audit which may be summarised as follows:

- (i) Checking of initial accounts maintained in the executive offices to ensure compliance with rules, regulations, systems and accounting procedures.
- (ii) Study of accounting procedure to ensure their correctness and adequacy.
- (iii) Ensuring that the procedures so prescribed are implemented in spirit.
- (iv) Scrutiny of check of payments and accounting done in the Pay & Accounts Offices.
- (v) Investigation of important arrears in accounting and other connected records.
- (vi) Pursuance and settlement of minor objections pointed out by the Statutory Audit.
- (vii) Coordination with the Ministry and the Controller General of Accounts regarding internal audit procedures.

5.10 The guidelines also define the nature of checks to be exercised by Internal Audit in such a manner as, by and large, to restrict the audit to a review of compliance with prescribed rules and procedures and the accuracy of the accounts records.

5.11 The scope of the Internal Audit was slightly enlarged in 1981 to cover examination of the accounts of autonomous bodies substantially financed by Government but which were not subject to inspection by Statutory Audit, namely, institutions which received less than Rs.25 lakhs per annum as Grant from the Government of India.

## D. EFFECTIVENESS OF INTERNAL AUDIT

5.12—In their written replies to the question regarding the effectiveness of Internal Audit, the Secretaries have by and large stated that Internal Audit was ensuring compliance with the financial rules and regulations but needed to be strengthened (in manpower and training) so as to undertake propriety audit and review of schemes. There was even one suggestion that the findings of Internal Audit should form part of the Appropriation Accounts of the Ministry as is understood to be done on the Defence side. A few Ministries/Departments have, however, put forth the view that the scheme of Departmentalisation of Accounts does not envisage the undertaking of propriety audit or efficiency audit and that Internal Audit cannot oversee and sit in judgement over the Financial Adviser and Secretary of the Ministry.

5.13 The CGA in his written reply to the Committee has stated as follows:

"The structure of Internal Audit, though very important, has not received the attention it deserves. Ideally, Internal Audit should be a strong instrument in the hands of Secretary of the Ministry to ensure that high standards of financial norms are being followed and infractions are attended to as soon as these are noticed so that statutory Audit has little work left to do. In practice, however, the staffing and supervision is very thin, limiting the performance of internal audit. However, all efforts are being made to strengthen this important arm of the Accounts Office. Head of the Ministry should take greater interest in the work of internal audit."

5.14 Some of the Ministries were requested to furnish copies of the Inspection Reports issued by the I.A. Wing for examination by the Committee. A perusal of these reports received from 9 Ministries/Departments indicated that, by and large, they brought out cases of failure in observing financial rules and regulations, incorrect application of service rules and errors in the maintenance of Cash Books, Stock Registers and evaluation of tenders.

5.15 In oral evidence the Adviser(Budget), Ministry of Railways and Financial Adviser, Ministry of Defence had stated before the Committee that Internal Audit was very effective in their Ministries. The officers of the C&AG of India informed the Committee that any deficiency in the conduct of internal audit in the Ministries of Railways and Defence and their subordinate formations was

commented upon in the C&AG's Audit Report placed before Parliament. There had, however, not been any comment on the internal audit introduced with the departmentalisation of accounts in other Ministries in 1976 presumably for the reason that it was not yet fully established.

#### E. AUDIT RESOURCES

5.16 The table below shows the staff sanctioned for attending to payment and account functions and for internal audit in the Central Ministries/Departments in 1976:

Staff sanctioned for payment and accounting functions			Staff sanctioned for Internal Audit		
Group 'A'	'B'	'C'	Group 'A'	'B'	'C'
185	382	8281	18	51	129

5.17 We have been informed that there has been no increase since 1976 in the staff sanctioned in Groups 'B' and 'C'.

5.18. The staff employed by the C&AG of India in offices exclusively conducting audit of the accounts of Ministries/Departments covered by the departmentalised Accounting Scheme is approximately as follows:

Group 'A'	Group 'B'	Group 'C'
Not available	418	2360

In addition, some staff in offices of State Accountants General are also engaged in conducting audit of Central Govt. transactions.

#### F. EVALUATION OF THE INTERNAL AUDIT SCHEME

5.19 It will be clear that the Internal Audit introduced in 1976 was oriented mainly to verifying the accuracy of the accounts and the validity or legality of expenditure incurred. Such audit could be termed "regularity" audit and may be considered routine in nature. Nevertheless it is the very foundation of any structure of audit. It should be a matter of much satisfaction if such audit is being conducted adequately. The Committee could form no clear idea of the quality of internal audit. But from the figures of staff deployed and the extent of audit

to be undertaken, as shown above, it is obvious that the quantum and periodicity of audit are unacceptably low. It is significant to note that the objective of relieving the C&AG of routine audit has not even been attempted. Over the last 14 years, there does not appear to have been much reduction in the scope or quantum of audit carried out by the C&AG.

5.20 While in all areas, the quantum of audit is inadequate, it has been brought to our notice that a very large number of our Missions abroad have not been audited for over a decade and some never at all. Internal Audit of the Missions was introduced only in 1986. Since then, only three Missions have been audited (May, 1990). The internal audit has brought out serious irregularities in the maintenance of cash book, inventory of dead stock, hiring, repairs and maintenance of buildings etc.

5.21 To compound the gravity of the situations, as mentioned earlier in para 4.53 supra, we understand that many posts in our Missions sanctioned for Accounts personnel are actually held by persons without any training or experience in Finance or Accounts. Many of these Missions have large budgets covering pay and allowances, rentals, repairs and maintenance, entertainment and hotel bills, travel, purchase of household and office furniture, equipment and supplies, etc. There should be no hesitation in incurring expenditure on audit of these Missions commensurate with the magnitude of the expenditure to be audited. We recommend that the Department of Expenditure should look into the question of ensuring adequate audit of the expenditure incurred abroad.

5.22 During discussions with the C&AG and his officers, this Committee was informed that it was certainly the intention to adjust the quantum of the C&AG's audit in the light of the adequacy and quality of internal audit as had been the case in the Railways and Defence Ministries. This is, indeed, as it should be. It is for "external" audit to evaluate the degree of reliance that may be placed on the work of internal audit and thereafter to seek to optimise the use of audit resources, both external and internal.

5.23 This Committee has not seen any evidence of interaction between the Government and the C&AG on this matter. It is recommended that there should be a phased expansion in the scope and quantum of internal audit to all areas now covered by the C&AG's regularity-cum-propriety audit and in particular local inspections. It is true that this will involve an increase in staff but this would be matched, over a period of time, with reduction in the

staff of the C&AG. In fact, it should be possible ultimately to achieve an overall reduction in staff by the regulation of audit with the use of sampling techniques, concentration on areas of organisational weakness, a greater officer orientation leading to higher productivity and computer assisted audit. **We would urge that a time bound programme of action be drawn up and that the progress made be reviewed from time to time.** While, of course, the pace of reduction in the quantum of audit by the C&AG of India will be entirely in his discretion, we have no doubt that the C&AG will be strongly supportive of the attempt to strengthen internal audit and to optimise the use of audit resources.

5.24 While the range of conventional internal audit would be increased in the manner recommended, it is necessary to consider the role of internal audit vis-a-vis the management. Internal audit is essentially a service to management and must be regarded and accepted as such. It performs this role by providing analysis, appraisals and information which assist management to function more effectively.

5.25 The CGA and some others who gave evidence to the Committee have been dissatisfied with the attention given to Internal Audit by the Secretaries of Ministries. The Committee feels that, to a great extent, it is for Internal Audit to "sell" itself to management. The scope of audit hitherto has been limited and it is not surprising that the reports on instances, or even a series of instances, of deviations from rules and procedures have not aroused much interest. It would be necessary to indicate how such lapses arise whether from a weakness in the system, chronic failures of supervision or lack of integrity, the possible consequences and remedial action. The guideline of the C.G.A. to Internal Audit is that "Only facts should be mentioned and inevitable conclusions drawn.... it is for the administrative authorities to take action." This may be appropriate for external audit based on the dictum in the old Audit Code that it is not the function of audit to advise on how Government may better be run. But it surely does not apply to internal audit and still less to the F.A. whose function it is to present audit reports to his colleagues and the Secretary.

## G. AUDIT OF COMPUTERISED ACCOUNTS

5.26 The steady expansion of electronic data processing facilities in Government has added a new and complex dimension to the role of Internal Audit. The Internal Auditor needs to be associated in the very development of systems so as to ensure that adequate internal controls are built in ab initio. Intensive training is required. Indeed, it is said that the Auditor's understanding

of computer techniques needs to be of near professional standards, so that it is ensured that the computer is used to assist audit and not, expensively, to work for audit.

5.27 Computer trained auditors will need to be located in each Ministry in the Internal Audit units. In addition, it is recommended that an Expert Group be established in the CGA's office which will be associated with the development of systems and which will lay down procedures to be followed by Internal Audit parties for inspection of computerised records. This Group would also provide the initiative for development and expansion of EDP systems in the area of Accounts and related information systems.

## H. EFFICIENCY AUDIT BY CONTROLLER GENERAL OF ACCOUNTS

5.28 Simultaneously with the expansion of conventional audit, serious consideration needs to be given to undertaking audit of efficiency and effectiveness. It must be appreciated that scrupulous compliance with all prescribed procedures does not ensure that resources are economically or efficiently deployed nor that the expenditure is effective in the sense that the desired objectives are achieved.

5.29 Over the last two decades there has been a sea change in the nature of reports emanating from the C&AG. There is much greater emphasis on the review of schemes than on individual transactions. This is in tune with the direction of audit in many other countries briefly referred to earlier in this chapter. But the undertaking of such audit by the "external auditor" does not obviate the need for audits of efficiency by Internal Audit. For one thing the C&AG's audit is essentially intended to bring to light failures and lapses and, perhaps unavoidably, the reports are available much after the event. On the contrary, Internal Audit, intensively and continuously undertaken in-house, is supportive of management, is constructive and has as its purpose the promotion of efficiency and effectiveness in the organisation by timely remedial action. The Internal Auditor is critic, counsellor and agent of change.

5.30 This Committee has given much thought to the question on how such efficiency audit may be organised and come to the conclusion that it will be necessary gradually to build up the capability to conduct such audit meaningfully. The work should be entrusted to a few teams who would take up selectively examination of schemes, operations, institutions and systems



(including systems of taxation) based on a programme agreed periodically with the Ministries. These teams should be set up in the CGA's office under the overall whole time supervision of one of the existing Addl. CGA's. While general accounts will be the principal discipline these teams must be multi disciplinary and/or have available to them the services of Cost Accountants, EDP experts, economists and engineers (particularly industrial engineers).

5.31 There are several reasons why the centralisation of this type of audit is recommended. Firstly, availability of experienced officers with the appropriate aptitude will necessitate starting with a few teams only. Secondly, it would be desirable that the efficiency audit team is independent of the Ministry/Department whose schemes are to be reviewed. Thirdly, it will be easier to organise inter-disciplinary assistance centrally. And finally, it is essential to provide a high level experienced leader for this audit who could give it his undivided attention.

5.32 While the Committee is convinced that efficiency-cum-effectiveness audit must be undertaken, it is conscious of the fact that several initiatives in the past in areas such as O&M and programme evaluation have not fulfilled the hopes with which they were started but have left behind organisations which go through the motions but make little contribution to efficiency. There is, therefore, need for caution, for careful selection of personnel, for organising appropriate training and for study of the experience of other countries in this field of activity. The pace of activity should be stepped up only as experience is gained and it is clear that worthwhile results are being achieved.

## CHAPTER VI

### TRAINING

#### A. NATIONAL INSTITUTE OF FINANCIAL MANAGEMENT

6.1 Improving the utilisation of Accounts personnel in appropriate areas as recommended in this Report and initiatives to modernise financial management will not be successful unless supported by an adequate training programme. The Government have already decided to set up a National Institute of Financial Management (NIFM) to provide induction and in-service training to the officers of the Group 'A' Accounts Services. It is expected that the NIFM will start functioning within a year.

6.2 The Finance Ministry's note proposing the establishment of the NIFM had stated as follows:

"The course content in departmental institutions which was evolved several decades ago to cater to the needs of that period has not undergone any significant transformation over the years. While training of this nature is essential for dealing with day to day routines of the departments, experience has shown that it is inadequate to prepare officers for responsibilities of higher financial management. Over the years, the present training pattern has lost some of its effectiveness. The inadequacies surface most prominently when officers are entrusted with financial advisory functions and other executive responsibilities."

6.3 The detailed Project Report on the establishment of the NIFM provides for a one year intensive induction programme for new recruits in finance and accounts before they are exposed to the routine of departmental procedures. The induction programme will include courses in Cost and Management Accounting, Computerised Accounts and Audit, and Systems Audit. A high level of computer

familiarity is aimed at together with the development of the quality of 'numeracy' through training, *inter alia*, in quantitative methods of decision making.

6.4 Short-term refresher courses and intensive reorientation programmes are also planned in NIFM for in-service officers. A special course will be organised for those promoted to the Group 'A' Service.

## B. UPGRADING OF EXISTING SKILLS

6.5 Undoubtedly, the new pattern of induction training will produce a generation of young officers appropriately qualified for the tasks that lie ahead. But in our view, the need of the hour is the reorientation and upgrading of the skills of the officers already in service. Unless this is achieved effectively and rapidly, the modernisation of financial management will be a slow and frustrating process, despite the qualification and training of the new recruits. We would, therefore, recommend that the NIFM should organise special intensive courses particularly in subjects such as Cost and Management Accounts, Information Systems and Computer Applications for in-service officers so as to cover the whole Group 'A' cadre (including those at the seniormost levels) within the next three or four years. It may also be useful if NIFM could generate 'self-tutor' material so that in-service officers may supplement and/or prepare themselves for classroom instruction in NIFM.

## C. TRAINING OF SUBORDINATE CADRES

6.6 The initiative to modernise the curriculum for the Group 'A' Services comes not a day too early. But it is dismaying to note that not much thought seems to have been given to modernising the training of the subordinate cadres, particularly of the Junior Accounts Officer (Civil) examination, qualification in which leads to promotion from the clerical to the supervisory level. And it is from this cadre of supervisors that one third of the vacancies in the Group 'A' Service are annually filled. In fact, there is at present no training

facility at all for those preparing for this important examination. Nor is there any training of clerks who are required to pass a Departmental Confirmatory Test but who are, generously, allowed six opportunities to do so. It should be obvious that unless the training of the subordinate cadres is reoriented in line with that of the Group 'A' Services, we shall be attempting to build a modern edifice on crumbling foundations.

6.7 We recommend that the CGA should immediately set up a Staff Training Institute at a central location. The main function of this Institute would be to:

- (i) provide training to JAO (Civil) Apprentices to be recruited under the revival of the scheme as recommended by us in Chapter VII.
- (ii) conduct refresher and reorientation courses including courses in computer systems and audit, for in-service JAOs and PAOs.
- (iii) develop training material for courses to be run at other centres for those preparing for the JAO (Civil) Examination and the Departmental Confirmatory Examination.
- (iv) provide functional supervision and guidance to the training facilities being set up at other centres.

6.8 We would particularly emphasise the need for appropriate induction training of new entrants to the Junior Accountant cadre. These entrants are graduates of diverse discipline and it is unreasonable to expect them to pick up intricacies of accounts, audit procedures, service rules etc. on their own. It is also wasteful and inefficient that these new recruits should take several years to clear the Departmental Confirmatory Test, since this is the index of their capability to perform the work for which they have been recruited. We accordingly recommend that in addition to the Central Staff Training Institute, facilities should be organised for conducting training classes in a Civil Accounts Office at all locations where there are concentrations of accounts staff such as Delhi,

Bombay, Calcutta, Madras and Nagpur. The classes at these centres may be held both during and after office hours. The classes may also be conducted at these centres for those preparing for JAO (Civil) Examination conducted by the CGA. The basic training material for these regional training courses should be prepared by the Central Staff Training Institute which should also ensure adequacy of the training imparted in these training classes.

#### D. EXCHANGE SCHEME

6.9 Apart from training, there is need also to develop experience. The ICAS cadre was initially constituted by the absorption of officers from the IA&AS. These officers had already acquired wide experience in the Central and State Government audits and in assignments on deputation to a variety of organisations. Many of these officers have retired and others are reaching the end of their careers. Many of those who were directly recruited to the Service after 1976 have had little experience other than in the Secretariat. The Committee considers this to be a weakness which must be remedied as early as possible.

6.10 There had been, and still is in a small way, a scheme of exchange of officers between the Accounts Services for short assignments of about three years. During its meeting with the C&AG, the Committee had found him to be quite receptive to the idea that the scheme should be revived.

6.11 The Committee recommends that officers of the ICAS be seconded under this scheme to posts in IA&AS, IRAS, IDAS and IPF&AS. We would emphasise that opportunities should be sought for posting in areas such as Commercial Audit, Revenue Audit and Audit of autonomous bodies and in the financial management of departmental industrial establishments such as Railway and Defence production units. We believe that officers of the other cadres who are seconded under this scheme to ICAS cadre posts, the responsibilities of which have been enriched in the manner recommended in this

Report, will find the experience rewarding and also contribute usefully out of the experience gained in their cadres.

## E. DEPUTATIONS

6.12 The Committee notes that as a matter of policy, deputation is no longer permissible to the Central Public Sector Undertakings. Governments in other countries are seconding their employees even to the private sector for gaining the required experience while we deny ourselves the opportunity provided by our own public sector. The officers of Group 'A' Accounts Services can play a vital role at appropriate levels in the Finance and Accounts divisions of public sector undertakings and experience gained can be of great value in their jobs in Government. Likewise, it would be advantageous to induct some officers of Finance and Accounts divisions of public sector undertakings at appropriate levels in Government on tenure basis. We would therefore recommend that officers of Accounts Services should be deputed to public sector undertakings for a specified tenure and the immediate absorption rule should not apply to them and that there should be a corresponding arrangement for deputation of public sector undertakings' officials to Government. Opportunities for widening experience should also be sought through secondment to non-corporate autonomous bodies, State Government Undertakings such as Electricity Boards and to posts in the Union Territories (such as Director of Treasuries). Apart from gaining experience in such posts, we have no doubt that officers of the Accounts Services would be able to make commendable contribution in such assignments.

## F. RESEARCH

6.13 Closely connected to training is research. The NIFM Project Report provides for research to be undertaken to "focus on areas of practical utility to Government Departments". The Committee recommends that the NIFM be

requested to take up, on priority, studies of aspects of introduction of management accountancy and information systems in Government. Such studies could also be entrusted to other Management Institutes as it may be a year or more before the NIFM faculty is fully in position.

## CHAPTER VII

### ORGANISATIONAL STRUCTURE

7.1 We are required to review the structure and role of the Civil Accounts Organisation including the Indian Civil Accounts Service and its effectiveness in discharge of functions relating to departmentalisation of accounts and recommend measures for effectively achieving the objectives.

#### A. DEPARTMENTALISED ACCOUNTS ORGANISATION

7.2 After the separation of Accounts from Audit, the organisation of the Controller General of Accounts was set up under the Department of Expenditure, Ministry of Finance, to deal with the following:-

- (i) General principles of Government accounting relating to Union or State Governments and form of Accounts, and to frame or revise rules and manuals relating thereto;
- (ii) Reconciliation of cash balances of Union Government with Reserve Bank in general and, in particular, of Reserve Bank Deposits pertaining to Civil Ministries or Departments;
- (iii) Overseeing the maintenance of adequate standards of accounting by Central Civil Accounts Offices;
- (iv) Consolidation of monthly accounts, preparation or review of trends of revenue realisation and significant features of expenditure etc. and preparation of annual accounts (including Summary Civil Appropriation Accounts) showing under the respective heads, the annual receipts and disbursements for the purpose of the Union Government;
- (v) Administration of Central Treasury Rules;
- (vi) Co-ordination and assistance in the introduction of management accounting system in Civil Ministries or Departments;
- (vii) Cadre Management of Group "A" (Indian Civil Accounts Service) and Group 'B' officers of the Central Accounts Offices; and



- (viii) Organising of training and examinations for the Central Civil Accounts staff belonging to Group 'C' and 'D'.

7.3 The Controller General of Accounts is the highest cadre post in the Indian Civil Accounts Service (ICAS). Prior to separation, the responsibility for prescribing the form in which the accounts of the Union and of the States were to be kept was that of the C&AG with the approval of the President under Article 150 of the Constitution. This Article was substituted to read as follows under the Constitution (42nd Amendment) Act, 1976 of 10th December, 1976

"The accounts of the Union and of the States shall be kept in such form as the President may, after consultation with the C&AG of India, prescribe."

There has been a further amendment of this Article by the Constitution (44th Amendment) Act, 1978 of 30th April, 1979, and the Article as amended reads as follows:-

"The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller & Auditor General of India, prescribe."

Thus, while the advice of the C&AG is still required in regard to the form in which the accounts of the Union and of the States are to be kept, the primary responsibility for prescribing the form of accounts and for framing or revising the rules and manuals relating thereto is that of the Controller General of Accounts, after the departmentalisation of accounts in 1976. The Controller General of Accounts is thus the principal Accounting Authority of the Government of India and the State Governments. The Secretary of each Ministry/Department of the Government of India is the Chief Accounting Authority for that Ministry and he discharges this responsibility through and with the assistance of the Financial Adviser. The Financial Adviser is assisted by the Chief Controllers/Controllers of Accounts of the ICAS for his accounting responsibilities. There are over 430 Pay & Accounts Offices in different parts of the country who are responsible for making payments in respect of the various offices under the Central Civil Ministries/Departments and they function under the Chief Controllers/Controllers/Deputy Controllers of Accounts of the respective Ministries through the Principal Accounts Offices at the headquarters of each Ministry/Department. A typical organisational chart of the departmentalised accounts set-up in a Central Civil Ministry/Department is at Annex 'K'. The

overall charge of the departmentalised accounts set up including internal audit is that of the Financial Adviser of the Ministry/Department which he discharges through the Chief Controller/Controller of Accounts/Deputy Controller, as the case may be. While Group 'C' and 'D' staff are borne on the decentralised cadres of the respective Ministries/Departments, the cadre management of Groups 'A' and 'B' officers vests centrally with the Controller General of Accounts.

## B. INDIAN CIVIL ACCOUNTS SERVICE

7.4 Consequent upon departmentalisation of accounts, the Indian Civil Accounts Service was constituted as a Group 'A' Central Service, recruitment to which is made through the annual competitive examinations conducted by the UPSC. This Service was constituted on 1st April, 1977 with a cadre strength of 163. At the initial stage, officers from the Indian Audit & Accounts Service were appointed by transfer to this Service. Subsequently, the posts have been filled up by annual direct recruitment, permanent absorption of some officers of the Accounting Branch of the Air Force and by deputation, etc. The recruitment rules also provide for filling up 33-1/3% of the vacancies by promotion. The present cadre strength of the ICAS after the three cadre reviews carried out since its constitution is as follows:-

	No. of posts
1. Controller General of Accounts	1
2. Addl. Controller General of Accounts	4
3. Senior Administrative Grade	22
4. Junior Administrative Grade including Selection Grade	35
5. Senior Time-scale	70
6. Junior Time-scale	15
7. Deputation/leave/training/probationary reserve	56
<b>Total</b>	<b>203</b>

7.5 It has been represented before us that members of the Indian Civil Accounts Service are entrusted with the responsibility of accounting and internal audit only and are not being associated with the work relating to budget, financial advice, etc. It has been urged that as in the Railways, there should be an integrated financial and accounting set up in each Ministry and the members of the Service should be entrusted with this responsibility. We note that the Yardi Committee had recommended that there should be a separate Service for manning the middle and senior levels in Finance, Accounts and Internal Audit in each Ministry/Department. It, however, appears that the Service was constituted mainly to assist the Ministries/Departments with the responsibility of maintenance and compilation of accounts after the separation from audit. This is borne out by the Departmentalisation of Union Accounts (Transfer of Personnel) Act, 1976 (Annex 'M') which refers to the transfer of officers of IA&AS to the new Service for the purpose of facilitating efficient discharge by the Ministries of the responsibility of compiling accounts. In fact, in a subsequent D.O. letter dated 4th May, 1981, from the Secretary, Department of Expenditure, to all the Secretaries in the Central Ministries (Annex 'L'), it was suggested that in order to make better use of the experience and expertise of the officers of the ICAS, the budget work and some finance work may be entrusted to the members of the Service in consultation with the Financial Adviser. It was also suggested that internal audit should also be put completely under the control of heads of Accounts Organisations. The overall responsibility for Finance, Budget, Accounts and Internal Audit was, however, to continue to be with the Financial Adviser. While internal audit has now been made the responsibility of the Accounts Organisation in the various Ministries/Departments, the suggestions for entrusting the budget and some finance work to them remain unimplemented in most of the Ministries/Departments.

7.6 We had written to the Establishment Officer on this matter and later had discussions with him. He had informed us that all the posts in the Central Government Secretariat were held on a 'borrowing scheme' by Officers borne on various cadres and even CSS Officers above the rank of Under Secretary were promoted on fitness basis to those posts. In his written reply, the Establishment Officer stated: "The present thinking is that if a post is to be operated under the Central Staffing Scheme, which is the present practice in respect of the post of Deputy Financial Adviser, then that post is to be open to all services and officers having appropriate background would be proposed."

7.7 We have discussed this matter with the Secretary (Expenditure), Shri K.P. Geethakrishnan. He has conveyed to us his views in a note that reads as follows:

- (a) "The existing arrangement of compartmentalisation of Finance and Accounts should give way to complete integration of financial advice, budget and accounts functions at all levels. Such an integration will not only improve the quality of financial administration in the Ministries but would also lead to savings through reduction in manpower.
- (b) Keeping, however, administrative difficulties in mind, integration of financial administration should be undertaken in phases.
- (c) To start with, all posts upto and including Deputy Secretary/Director level should be taken out of Central Staffing Pattern and merged into the Civil Accounts Department. For posts of Financial Advisers at Joint Secretary and Additional Secretary levels, however, the following difficulties will have to be taken into account:-
  - i) The selection process for posts at these levels should continue to be rigorous.
  - ii) Interests of other Services for Central deputations at these levels will have to be kept in view.
  - iii) The ICAS is, at present, not in a position to provide sufficient number of officers to man all the financial administration posts at these levels.
- (d) Accordingly, phasing of integration process in respect of JS and AS level posts will have to be carefully thought over and implemented over a period of time."

7.8 The Committee has separately recommended in Chapter IV of this report greater involvement of the members of the Service in the activities of the Ministries/Departments and also an enlargement of their areas of responsibility so as to make the best use of their knowledge and experience not only for compilation of accounts and internal audit, but also for financial advice and for assisting the Ministries/Departments in making accounts an integral part of overall management. The Committee has further considered the matter in the light

of the above views conveyed by Secretary(Expenditure). It appears to us that the difficulties mentioned in integrating the posts at the JS and AS levels also apply to posts at the Director/Dy. Secretary level. In particular, it would be essential to secure reasonable opportunity for Officers of all the Accounts Services to serve in posts of Director/Deputy Secretary which experience is necessary to make them eligible for consideration for appointment to posts of Financial Adviser.

7.9 Keeping this in view, the Committee recommends that 2/3rd of the posts upto the level of Director in the Finance and Budget Divisions of the Ministries/Departments should be encadred in the Indian Civil Accounts Service and the remaining 1/3rd should be kept available for suitable officers belonging to other organised Accounts and Group 'A' Services. Subject to this recommendation, we welcome the proposal of Secretary(Expenditure) as it would both affirm the particular relevance of the accounts discipline in financial management and afford preferential access to ICAS officers to posts in the mainstream of the Finance Department. We agree that there should simultaneously be a reduction in the total number of posts in the Finance and Accounts Departments by a suitable reallocation of duties.

7.10 Further, the integration will have to be done also for posts below the level of Under Secretary in the Finance Division which are mostly encadred in the Central Secretariat Services. We recommend that these posts should become part and parcel of the Civil Accounts Organisation in all Ministries/Departments over a period of two years.

7.11 It has been brought to our notice that at present in eight Ministries, the accounts cadre is headed by the Chief Controller of Accounts, who is in the same pay scale as that of a Joint Secretary. In these Ministries, the FA's are also of the level of the Joint Secretary and, therefore, the CCA has to report to an officer who is of his own rank. In many cases, the FA may even be junior to the CCA. The Committee considers this situation administratively unacceptable and also a waste of high level manpower. The Committee feels that wherever this situation arises the obvious and economic solution would be to combine the posts of CCA and FA.

7.12 Apart from increasing the areas of responsibility of ICAS, it is also necessary that the Service should be effectively utilised for the purpose for which it was constituted. The scheme of Departmentalisation of Accounts is not restricted to the Ministries/Departments at the Central Secretariat but is equally applicable to the various offices under these Ministries in different parts of the

country. That is why there were about 430 Pay & Accounts Offices as on 1.4.1990 all over the country of which about 50% are located at Delhi. Of the total staff strength of about 9,000 of the Civil Accounts Organisation, about 4,500 personnel are working in PAOs outside Delhi. While this is the pattern of distribution of the departmentalised accounts organisation, the distribution of cadre posts of ICAS which is expected to provide administrative and managerial supervision and guidance to the Accounts set-up is quite different. We find that out of the total cadre strength of 147 posts (excluding reserves), only 18 posts are sanctioned for operation at places outside Delhi as per details given below:-

(i)	SAG level	3
(ii)	JAG level	2
(iii)	Senior Time Scale level	13

The Yardi Committee had visualised that the attached and field formations of the Ministry should be sub-divided into Accounts circles corresponding to viable operational formations. Each Circle was to have a pivotal role and be under the charge of an Officer of appropriate status who would carry out accounts inspections, render financial advice to the executive authorities in the Circle and assist them in financial control and performance appraisal. In fact, the Accounts Circles were to serve as the forward base for internal audit operations.

7.13 We think that in order to fulfil its management accounting role, the ICAS should not only cater to the requirements at the headquarters of the Ministries/Departments but also the field formations under them as envisaged by the Yardi Committee. For this purpose, it is necessary that officers at senior and other levels should be positioned in different regions so as to effectively supervise the functioning of the PAOs and the Internal Audit Organisations and also be in a position to provide accounting and other advice which the local executive officers may require. We have separately recommended that the CGA should be entrusted with the responsibility of efficiency audit of projects and schemes in consultation with the respective Ministries. In this respect also, it would be desirable if the knowledge and experience of the ICAS officers available in the different regions/areas is fully utilised. It is also necessary that young officers joining the Service should not be confined to the sheltered experience provided in the Secretariat of the Ministries/Departments. It is necessary for enriching their

experience and career advancement that they hold independent charge of offices outside Delhi so that they can be groomed for positions of higher responsibility.

7.14 Taking into account the existing distribution of the PAOs under different Ministries/Departments, we recommend that there should be a re-distribution of posts at the SAG/JAG level so as to provide close supervision of the PAOs in Western, Eastern and Southern regions, and of Internal Audit and for rendering advice to the executive officers in these regions. We also recommend that wherever there are three PAOs or more under any Ministry/Department at any station/State/region, these should be placed under the charge of an ICAS officer at the senior time scale/Junior Administrative Grade level who would be responsible for their efficient functioning, internal audit and other responsibilities. We hope that this decentralisation, will be a step in the direction of better fulfilling the role envisaged for this Service.

### C. CONTROLLER GENERAL OF ACCOUNTS

7.15 It has been urged before us that the Controller General of Accounts who is the Head of the ICAS and is the Principal Accounting Authority of the Government of India and the State Governments, does not have the status which he deserves. It is seen that at the time of separation of Accounts from Audit, the post was created on a pay of Rs.3,000/- (fixed), then applicable to a post in the rank of Additional Secretary. Subsequently, on the recommendations of the Fourth Central Pay Commission which examined the duties and responsibilities of various posts under the Central Government, the pay of the C.G.A., which is the highest cadre post of the ICAS, has been fixed at Rs.7,600/ (fixed). Subsequent to the Report of the Fourth Pay Commission and as a result of cadre reviews, there are now 4 posts of Additional Controller General of Accounts or equivalent in the ICAS in the pay scale of Rs.7300-7600.

7.16. As the Principal Accounting Authority in the Government of India, the CGA is responsible for prescribing the form of the accounts of the Union and the States. This responsibility involves not merely the prescription of the Heads of Account (Major, Minor and Detailed) but decisions on the propriety of classification of individual items of expenditure and receipt and formulation of accounting policies and principles on the basis of which various accounts shall be prepared. He is also responsible for administering Article 283 of the Constitution relating to the payment and withdrawal of monies into and from the Consolidated Fund, the Contingency Fund and the Public Account of India. The Committee

expects the CGA to play a very active role in the development of Management Accountancy and Information Systems in the Ministries/Departments. We have also recommended that efficiency-cum-effectiveness audit should be undertaken under his supervision. The CGA is responsible for cadre management of Groups 'A' and 'B' Civil Accounts Service. We have recommended that he should also take on the responsibility for cadre reviews and regular training of Groups C and D staff. To enable him to discharge these responsibilities effectively, it is essential that he should have a status which will enable him to interact with facility at the highest level in the Ministries/departments. Taking into account the existing responsibilities the expanded role which we envisage for the CGA and the relativities within the organisation itself, we recommend that the post of CGA should be given the pay and status of ex-officio Secretary to the Government of India.

#### D. PROMOTION QUOTA FOR GROUP 'B' OFFICERS

7.17 In regard to the structure of the Service, the existing recruitment rules provide for 1/3rd of the vacancies in a year being filled by promotion. It has been represented by the Pay & Accounts Officers Association that this Rule has hardly provided any promotional opportunities to Group 'B' Officers and as on 1.4.1981, there were only 5 officers in the Service who were promoted from the Group 'B' level. This constituted about 3% of the total cadre strength. At the same time, while regular promotions to the ICAS are so few, a large number of officers have been promoted as per the Recruitment Rules to officiate in the senior time scale till such time officers in the junior time scale are available for promotion on regular basis. As on 1.4.1980, 58 PAO's were officiating in the senior time scale under this arrangement. Since induction into the ICAS is in the junior time scale only, even PAOs who have officiated in the senior time scale would have to be inducted as regular members of the Service at that level only. Due to this, we have been informed that not a single officer regularly promoted to the ICAS after 1976 has become eligible for promotion to the Junior Administrative Grade of the Service.

7.18 We are of the view that the existing rules are unsatisfactory since they result in very few Group 'B' officers being promoted to the Group 'A' cadre. On the one hand, this leads to resentment and frustration among Group 'B' officers which is bad for the morale of the organisation in which these officers play a key role. On the other hand, the organisation is denied the benefit, at senior levels, of the competence and long experience of these officers. We, therefore, feel that the



promotion quota for Group 'B' officers should be fixed as a percentage of the authorised strength of the Group 'A' cadre rather than, as at present, a percentage of the vacancies arising in a year. We understand that this is the position in the IA&AS and the IDAS. We also consider that it would be not only appropriate but just, that Group 'B' officers on promotion to the Group 'A' cadre should be placed in the senior time scale taking into consideration their service in Group 'B' posts which, in fact, are equivalent in responsibility to, and interchangeable with, posts in the junior time scale of the Group 'A' cadre. (We understand that this is the rule in the case of the All India Services, Engineering Services and all the Railway Services including the IRAS). The Recruitment Rules for promotion to the Group 'A' cadre already require a minimum of 5 years service in the post of P&AO. But, in fact, at present, as many as 58 Group 'B' officers are officiating in the senior time scale of the Service without being actually promoted to the ICAS.

7.19 We therefore recommend that the Recruitment Rules of the ICAS be amended to provide for (a) 33-1/3% of the authorized cadre strength to be filled by promotion from the feeder Group 'B' cadre and (b) on such promotion the officers to be placed in the senior time scale of the service.

#### E. ACCOUNTS STAFF

7.20 We have discussed how the effectiveness of the ICAS can be improved in the discharge of its functions relating to departmentalisation of Accounts. There is an equal need to improve the effectiveness of the personnel of the Civil Accounts Department at other levels also. Under the scheme, while the CGA is responsible for cadre management of Group 'A' and Group 'B' officers, Group 'C' and 'D' staff are borne on the cadres of the respective Ministries/Departments. The CGA is only responsible for organising training and the JAO (Civil) Examination for these personnel. It has been represented before us by the Associations of Groups 'B', 'C' and 'D' staff that while cadre reviews have been done for Group 'A' officers, no such cadre review has been undertaken for them. It has also been pointed out that they are not exposed to any training programmes to improve their potential and skills. We are of the view that even though the Civil Accounts Staff belonging to Group 'C' and 'D' are borne on the decentralised cadres of the respective Ministries/Departments, the CGA should look into their genuine grievances and take steps for their amelioration. There are general guidelines of the Department of Personnel and Training in regard to cadre review of Group 'C' and 'D' staff. We recommend that the responsibility for undertaking cadre reviews of Groups 'C' & 'D' Accounts staff in different

Ministries/Departments in accordance with the guidelines should be that of the CGA who should have it done on a regular basis in consultation with the concerned Ministries/Departments. Similarly CGA should undertake cadre review for the Group 'B' cadre also. We have already recommended in Chapter VI that the CGA should also organise appropriate training programmes for these personnel so that they are equipped to take on the tasks expected of them under the Departmentalised Accounting System.

## F. ACCELERATED PROMOTION SCHEMES

7.21 It has been brought to our notice that the cadres of PAOs and its feeder cadre of JAOs/AAOs are so structured in the Civil Accounts Department that:

- (i) at several stations including Delhi, it takes more than two years for a Junior Accountant who has passed the JAO examination to be promoted to the post of JAO.
- (ii) it takes more than 15 years on an average for a JAO / AAO to earn promotion to the grade of PAO.
- (iii) it takes more than 12 years for a PAO to come within the zone of consideration for promotion to the ICAS.

7.22 This leads to a situation when officers are generally promoted to the ICAS when they are about fifty-five years of age. This is not satisfactory as it deprives the Service of the benefit of their experience at senior levels. The scheme of promotion should be such that brighter officers are able to enter the ICAS at an age which would enable them to reach at least the Junior Administrative Grade before they retire. This would be possible if they are promoted by the time they are 45 years of age. We recommend introduction of accelerated promotion schemes for promotion to the level of PAOs as well as to ICAS which should be as follows:

### (a) Promotion from JAO /AAO to PAO:

- (i) Of the total annual vacancies to be filled up, 20 per cent should be earmarked for accelerated promotion.
- (ii) For such promotions, all JAOs /AAOs with a minimum service of five years as JAO/AAO should be considered and the selection criterion should be outstanding records.

- (iii) Officers found fit for accelerated promotion should rank *en bloc* senior to others in the same year.

(b) Promotion of PAOs to ICAS:

- (i) Of the total number of posts to be filled up by promotion in a year, 20 per cent should be earmarked for 'accelerated promotion'.
- (ii) For such promotions, all PAOs with a minimum service of five years as PAO should constitute the 'zone of consideration' and the selection criterion should be outstanding records.
- (iii) Officers found fit for accelerated promotion should rank *en bloc* senior to others in the same year.

7.23 The normal principles for determining the zone of consideration for promotions should not apply to these accelerated Promotions.

7.24 These schemes will reward meritorious work and encourage talented personnel to contribute their best to the efficient functioning of the department.

## G. REVIVAL OF SAS APPRENTICE SCHEME

7.25 Apart from improving the skills of the Civil Accounts staff through in-service training, there is also need for direct induction of personnel of high calibre in the organisation. At present there is direct recruitment at the level of Junior Accountant (UDC) through the Staff Selection Commission. Thereafter, the Junior Accountants, on passing the JAO(Civil) Examination, are appointed as Junior Accounts Officers. We understand that earlier, in the Indian Audit & Accounts Department and Defence Accounts Department, there used to be a scheme of direct recruitment of SAS Apprentices. Under the scheme, graduates with brilliant University records, were appointed as SAS Apprentices and were given intensive training for a period of two years after which they were to appear in the SAS Examination. As a result of the intensive and whole-time training, most of them qualified in the SAS Examination in the first attempt. Their advancement in the Department was also quite good and many of them were subsequently promoted to the Group 'A' Service against departmental promotion quota. In order to build up a cadre of Junior Accounts Officers of higher calibre, we recommend that the scheme of direct recruitment of Apprentices may be re-introduced by the Government not only in the Civil Accounts

Department but in the other Accounts cadres also. Recruitment to this cadre could be through a special examination to be conducted by the Staff Selection Commission. The percentage of posts to be filled up in this manner could be about 20% of the vacancies in a particular year or such percentage as may be considered appropriate by the respective Departments. We recommend that the Ministry of Finance may finalise this matter for all accounts cadres in consultation with C&AG and other concerned departments.

#### H. MERGER OF INDIAN COST ACCOUNTS SERVICE WITH INDIAN CIVIL ACCOUNTS SERVICE

7.26 Both the Indian Cost Accounts Service and the Indian Civil Accounts Service are managed by the Department of Expenditure as two separate Group 'A' Services. It has been suggested to us that their merger would be beneficial to both the Services. It has also been pointed out that even though the Indian Cost Accounts Service has a cadre strength of 168, it has not been able to attract the required number of candidates with the result that there are as many as 95 vacancies.

7.27 We discussed this matter with the Chief Adviser (Cost) of the Department of Expenditure. The Indian Cost Accounts Service which had been functioning as a Cost Accounts Cell/Pool, was constituted into a regular Group 'A' Service in September, 1978. The recruitment rules were notified in September, 1982 and the first cadre review was carried out in December, 1985. We have been informed by the Chief Adviser(Cost) that the recruitment rules of the Service provide for appointment of only qualified Cost or Chartered Accountants at the induction level of Assistant Director(Cost) in the Junior Time Scale. The age limit for recruitment to the Service is 35 years. The Chief Adviser (Cost) stated that the Indian Cost Accounts Service provides specialised service to the various Government Departments by professionally qualified personnel. They carry out important studies on cost/pricing, systems development, escalation cases, study of losses by Public Sector Undertakings, etc. He also pointed out that, of late, there had been good response for recruitment to the Service. The Chief Adviser(Cost) was, therefore, of the view that it would be in the interest of the Government to keep the identity of this Service separately so that it continued to provide specialised service in different areas.

7.28 We have carefully considered the matter and do not share the expectation expressed by the Chief Adviser(Cost) that there would be much improvement in direct recruitment to this Service. We would, therefore, recommend merger of

the Indian Cost Accounts Service with the Indian Civil Accounts Service. Our reason for recommending merger is that it would permit of easy deployment of qualified cost accountants to posts in which their expertise would be particularly desired and also provide them with career prospects which would take them to senior managerial positions in the merged service. We also recommend that the induction of Chartered/Cost Accountants should not be at the entry level but more appropriately be at higher levels of the Service from amongst Chartered/Cost Accountants with experience in the profession.

7.29 We understand that the special training courses to be organised by the NIFM would include cost accountancy also. This would lead to strengthening of the knowledge of cost accounts amongst the officers of the Indian Civil Accounts Service. We recommend that incentives may be offered to Indian Civil Accounts officers to qualify in the ICWA examination. We feel, by this method, cost accountants of higher calibre than the average direct entrant to the Indian Cost Accounts Service would be developed.

## CHAPTER VIII

### SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

#### Chapter II - Historical Background

1. On the Defence side, the Accounts have been maintained departmentally from the very beginning; in the Railways from 1925; in the Department of Telecommunications between 1968 and 1970 and in the Postal Department from April, 1976.

Para 2.3, 2.4, 2.5

2. The scheme of Departmentalisation of Accounts in all the other Central Ministries/Departments was effected between April, 1976 and June, 1980.

Para 2.7

3. The scheme introduced a major change. The C&AG was relieved of the responsibility for compiling the accounts of the Central Ministries and for authorising payments. The Secretary of the Ministry was designated as the Chief Accounting Authority for all transactions of the Ministry.

Para 2.7, 2.10

#### Chapter III - Review of Departmentalised Accounting System

4. The major objective of the scheme was to improve the financial competence of the Ministries and to make Accounts an effective tool of management.

Para 3.1

5. This is the first comprehensive review of the scheme after its introduction in 1976.

Para 3.3

6. The Departmentalised Accounts Organisation is now a part and parcel of the Ministries/Departments. It is, however, unfortunate that after 14 years, the officers and staff of the Organisation feel isolated and that they are treated as a category distinct from the other personnel of the Ministry. The Committee would urge that steps be taken to remove this feeling.

Para 3.5(a)(ii)(iv)

7. The prompt settlement of personnel and public claims is a major achievement of the departmentalisation of accounts.

Para 3.5(b)

8. The Civil Appropriation Accounts and Finance Accounts are placed before Parliament during the Budget Session of the ensuing year as desired by the Public Accounts Committee. Accounts of individual Ministries are available by the 20th of the following month.

Para 3.5(c)(i)

9. There has been a progressive reduction in the balances accumulated under suspense heads. The Committee recommends that the Inspection Wing in the CGA's office should liaise continuously with the field offices in tackling problem areas.

Para 3.5(c)(ii)

10. The computerisation of accounting data has made considerable progress. Since October, 1988 all the PAO's in Delhi have access to Personal Computers. Arrangements are being made to supply PC's to PAO's outside Delhi.

Para 3.5(c)(iii)

11. The Committee is happy to note that the Departmentalised Accounts Organisation is fulfilling its primary role of timely and accurate accounts-keeping.

Para 3.5(c)(v)

12. There has been remarkable progress in the timely remittance of excise and income-tax revenues to the Government account.

Para 3.5(d)

13. The Committee is pleased to note that adequate attention is being paid to the continuous review of Rules and Manuals.

Para 3.5(e)(ii)

14. It was expected that under the "merged DDO" scheme, the Cash Branch and the DDO would be manned by qualified accounts personnel leading to reduction of about 250 persons. This has not happened. As the system of precheck by the Departmentalised Accounts Organisation has been dispensed with, there are grave risks of irregular payments. The existing duality of control and dilution of precheck system is unsatisfactory and should be done away with. It is absolutely essential that the Cash Branch and the DDO should be made a part of the Departmentalised Accounting Organisation in all respects and that all posts be manned by accounts personnel within a period of two years.

Para 3.5(f)(i) to (iv)

15. The merged DDO Scheme has not been introduced in the Ministries of External Affairs, Women & Child Development and the Cabinet Secretariat and only partially in the Ministry of Information and Broadcasting. The Ministry of Finance should ensure its implementation in these Ministries/Departments without further delay.

Para 3.5(f)(v)

16. The Committee is concerned to note that there are several posts in Ministries/Departments where accounts personnel should be utilised which are now held by unqualified personnel. As a general principle, the responsibility for maintenance of accounts should be entrusted only to personnel drawn from the Accounts Cadres.

Para 3.5(g)(i)



17. In our Missions abroad, several posts specifically created for accounts work are held by non-accounts personnel. The Committee recommends that Missions with annual receipts and expenditure of over Rs.2 crore should have qualified accounts staff at appropriate levels.

Para 3.5(g)(ii)

18. The Committee notes that Internal audit has concerned itself largely with the regularity of payments and not achieved the role envisaged by the Yardi Committee (See also Chapter V).

Para 3.5(h)

#### Chapter IV - Accounts as a Tool of Management

19. It is a matter of concern that 14 years after the Departmentalisation of Accounts, nothing tangible has been done to make accounts an effective tool of management. It was one of the prescribed functions of the CGA to assist in the introduction of management accountancy. A sorry situation appears to have prevailed with the CGA waiting to be asked and the Management not knowing what to ask for.

Para 4.1 to 4.5

20. The Advisory Committee set up in 1976 under the Chairmanship of the Finance Minister devised MIS for three Ministries between 1978 and 1982 which were expected to serve as a model for other Ministries to develop their own MIS. In effect, not only was there no such development but the MIS adopted in the three Ministries appears to have fallen into disuse.

Para 4.6, 4.8

21. The Committee notes that performance budgets have little value as tools of management and that zero based budgeting has not resulted in any significant economies. This is probably because these systems do not have the support of accounting data systematically analysed and presented.

Para 4.13

22. The Committee is surprised to note that a Committee set up by the Government to review the General Financial Rules etc. in 1985 had recommended that proforma accounts need no longer be maintained in respect of several schemes such as the Central Government Health Scheme, because the cost of their operation had "no genuine relevance".

Para 4.14

23. The objective of making accounts a tool of management has not been achieved to a large extent because of failure to develop systems which management accounts would have subserved.

Para 4.18

24. The modernisation of financial management cannot be achieved without expert installation and maintenance of new systems and continuous modification and refinement until requirements are satisfactorily met. The Committee notes that initiatives have not succeeded in the past because of lack of adequate preparation, special training and follow up.

Para 4.17, 4.19

25. The Committee was surprised to note that over 50% of the officers currently in the Finance Departments did not belong to any cadre which had received systematic training in Finance and Accounts. This must lead to low receptivity to modernisation of management systems.

Para 4.19(iii)

26. Apart from attainment of notable proficiency in project evaluation techniques, the culture of financial scrutiny, by and large, has undergone little change.

Para 4.20

27. The experience of the UK during the last decade in introducing management accountancy and creating cost consciousness in Government is worthy of study.

Para 4.21 - 4.25

28. Continuous expert centralised prescription and guidance and special training of all to be involved, including senior management, is necessary to bring about major changes in management systems and culture. To prepare the ground for such initiatives, the Committee believes that its recommendations should include measures for better utilisation of the departmental accounts cadres and its effective integration into the financial management system.

para 4.19, 4.26

29. Financial Administration in the Ministries can no longer be treated as a generalist function. Special emphasis has to be laid on appropriate intensive experience and training of officers appointed to Finance Departments so that they can provide leadership in the progressive modernisation of Financial Management. (Recommendations on the organisational structure are at Sl. No.51 to 53.)

Para 4.27

30. The Committee reiterates the recommendation already made by the Ministry of Finance (but acted on by only a very few Ministries/Departments) that the Budget Section should be placed under the supervision of the Chief Controller/Controller of Accounts. We recommend further that all posts in this section be held by accounts personnel and that the replacement of existing personnel be effected within a period of one year.

Para 4.30 - 4.35

31. We recommend that the Chief Controller/Controller of Accounts be redesignated as Financial Controller and that he be entrusted/associated with the responsibility for

- (a) monitoring the progress of schemes/projects and expenditure;
- (b) appraisal of functioning of departmental and grant receiving bodies;
- (c) analysis of financial data received from PSU's;
- (d) release/obtaining approval for release of funds to PSU's/grantee institutions;

- (e) coordination of the MIS, its installation, maintenance, updating;
- (f) provision of specialist accountancy services;
- (g) coordination of disposal/follow up of queries/reports from Audit and Parliamentary Committees.

He will, however, continue to function under the supervision of the Financial Adviser of the Ministry/Department.

Para 4.41 and 4.43

32. The Committee endorses and reiterates the recommendation of the Advisory Committee that the zonal PAO's be integrated in the CPWD and the CA/PAO be redesignated as FA&CAO and Asst. FA&CAO respectively. It is further recommended that such integration should be effected *mutatis mutandis* in other Directorates General or any similar organisations. This would lead to dispensing with the maintenance of parallel sets of records.

Para 4.50 to 4.52

33. The Committee notes that in certain units where accounts were maintained departmentally even prior to its separation from Audit in 1976, the personnel are drawn mainly from the Central Secretariat Cadre. The Committee considers that it would be appropriate and desirable to absorb such personnel into the Departmentalised Accounts Cadre, if willing and suitable or replace them by accounts personnel. A few examples are listed in the Report.

Para 4.53

#### Chapter V - Internal Audit

34. In western countries and in better managed firms the world over, internal audit has moved beyond merely ensuring 'compliance' to 'serving management's needs for an informed, independent review of operations'.

Para 5.1

35. In the USA, Canada, Sweden and the UK there is increasing emphasis on audit of efficiency and effectiveness.

Para 5.3 to 5.6

36. The Yardi Committee had visualised that the Accounts Circles would form the forward base of Internal Audit teams which would carry out propriety-cum-efficiency audit and that with the introduction of effective internal audit, the C&AG could be relieved of the burden of routine auditing. The internal audit introduced in 1976 has been restricted to verifying the accuracy of the accounts and the "regularity" of expenditure incurred. The Committee could form no clear idea of the quality of internal audit, but from the figures of staff deployed, it is obvious that the quantum and periodicity are unacceptably low.

Para 5.8, 5.16, 5.18, 5.19

37. There does not appear to have been much reduction in the scope or quantum of audit carried out by the C&AG. The objective of relieving the C&AG of routine audit has not even been attempted.

Para 5.19

38. An area particularly neglected appears to be our Missions abroad. Only three Missions have been subjected to internal audit till May, 1990. The Committee recommends that the Department of Expenditure should ensure adequate audit of the Missions commensurate with the magnitude of expenditure to be audited.

Para 5.20 and 5.21

39. The Committee was informed by the C&AG and his officers that it certainly was the intention to adjust the quantum of statutory audit in the light of the adequacy of internal audit.

Para 5.22

40. The Committee recommends that there should be a phased expansion in the scope and quantum of internal audit to all areas now covered by the C&AG's regularity-cum-propriety audit and in particular local inspections. The Committee believes that the increase in the staff required for this purpose would be more than matched, over a period of time, by reduction

in the staff of the C&AG. The Committee would urge that a time bound programme of action should be drawn up and that the progress made in improving the scope and content of internal audit be reviewed from time to time.

Para 5.23

41. Internal audit must "sell" itself to management by indicating the implications of its findings and proposing remedial action. It is the function of the Financial Adviser to present audit reports to his colleagues and the Secretary.

Para 5.25

42. Computer trained auditors will need to be located in the Internal Audit Units. An Expert Group should be established in the CGA's office to be associated with the development of systems, laying down procedures for audit of computerised records and for expansion of EDP schemes.

Para 5.26 and 5.27

43. Internal Audit is supportive of management, is constructive and has, as its purpose, the promotion of efficiency and effectiveness.

Para 5.29

44. It will be necessary to build up capability to conduct efficiency-cum-effectiveness audit of schemes, operations, institutions and systems to be selected periodically by the CGA in consultation with the Ministries. The assistance of Cost Accountants, Economists, EDP experts and Engineers would be required. The Committee recommends the setting up interdisciplinary teams in the CGA's office under the full time supervision of an Addl. CGA to carry out such audit. The pace of activity may be stepped up as experience is gained and worthwhile results are achieved.

Para 5.30 to 5.32

## Chapter VI - Training

45. The Committee notes that Government have decided to set up a National Institute of Financial Management (NIFM) to provide induction and in-service training to all the Group 'A' Accounts Services.

Para 6.1 to 6.4

46. The new pattern of induction training proposed will produce young officers appropriately qualified for the tasks that lie ahead. However, the need of the hour is the reorientation and upgrading of skills of in-service officers. The Committee recommends that the NIFM should organise special intensive courses so as to cover the whole Group 'A' cadre within the next 3 or 4 years.

Para 6.5

47. Not much thought seems to have been given to modernising the training of the subordinate cadres. We recommend that a Staff Training Institute be set up at a central location to provide training to JAO (Civil) Apprentices, and to conduct refresher and re-orientation courses to in-service PAO's and JAO's. In addition, training facilities should be provided in Civil Accounts Offices at locations where there are concentrations of accounts staff to prepare candidates for the JAO (Civil) and Departmental Confirmatory examinations. The basic training material for the regional training centres should be prepared by the Central Staff Training Institute which should also oversee their functioning.

Para 6.6 to 6.8

48. The Committee notes that many of the ICAS officers who were directly recruited to the Service after 1976 have had little experience other than in the secretariat which it considers to be a weakness requiring early remedy. The Committee accordingly recommends that the Exchange Scheme between the various Accounts Services may be revived and ICAS Officers should be seconded to posts in Commercial Audit, Revenue Audit, Audit of Autonomous bodies and financial management of departmental production units.

Para 6.9 and 6.11

49. The Committee notes that as a matter of policy, deputation is no longer permissible to Central-Public-Sector Undertakings. We, however, feel that experience in the Finance and Account Divisions of PSUs would be of great value. The Committee recommends that officers of the Group 'A' Accounts Services be deputed for a specific tenure to PSU's and that there should be corresponding deputation of PSU officials to Government. The Committee also recommends that opportunities for widening of experience should be sought by secondment to non-corporate autonomous bodies, State Government Undertakings and posts in Union Territories.

Para 6.12

50. The NIFM and other Management Institutes should be requested to take up, on priority, studies for introduction of Management Accountancy and Information Systems in Government.

Para 6.13

#### Chapter VII - Organisational Structure

51. It has been represented that in the light of the recommendations of the Yardi Committee, the ICAS should be entrusted with the responsibility relating to Budget, Financial advice and Accounts functions. The Establishment Officer had informed the Committee that posts of Under Secretary and above fell under the Central Staffing Pattern. However, the Secretary(Expenditure) has proposed that, to start with, all posts upto and including Dy. Secretary/Director should be taken out of the Central Staffing Pattern and merged into the Central Accounts Department, for posts of Financial Advisers at Joint Secretary and Addl. Secretary levels, the selection process should continue to be rigorous, the interests of other Services and the availability of ICAS officers would have to be kept in view; and accordingly, the integration process at the JS and AS(FA) level posts would have to be carefully thought over and implemented over a period of time. The Committee feels that these considerations should also be taken into account in integrating at the level of Director/Dy. Secretary - in particular, the need to provide adequate opportunity to other Accounts Services. The Committee recommends that 2/3rd of the posts upto the level of Director in the Finance and Budget Divisions be encadred in the ICAS and the remaining 1/3rd be kept available for suitable officers belonging to the other Organised Accounts and Group 'A' Services.



Subject to this recommendation, the Committee welcomes the proposal of the Secretary(Expenditure). Simultaneously, there should be a reduction in the total number of posts in the Finance and Accounts Departments by a suitable reallocation of duties.

Para 7.5 to 7.9

52. The Committee recommends that posts below the level of Under Secretary in the Finance Division should become part and parcel of the Civil Accounts Organisation over a period of two years:

Para 7.10

53. The Committee urges that in any Ministry where there are posts of both Joint Secretary (FA) and CCA, the obvious and economic solution would be to combine the posts.

Para 7.11

54. Of the total staff of the Civil Accounts Organisation of about 9,000, about 4,500 are posted outside Delhi. However, of the total cadre of the ICAS of 147, only 18 posts are sanctioned for operation outside Delhi. It is recommended that ICAS posts should be re-distributed so as to provide for closer supervision outside Delhi of accounts work and internal audit and for rendering advice to Executive Officers. Wherever any Ministry/Department has three or more PAO's at any location/State/region, an ICAS officer of appropriate status should be posted to supervise the accounts and audit work. Such a decentralisation/re-distribution is necessary to enrich their experience and would be in the direction of better fulfilling the role envisaged for this Service.

Para 7.12 to 7.14

55. In consideration of the CGA's existing responsibilities as the Principal Accounting Authority of the Government of India and the State Governments and the expanded role visualised for him by this Committee and to enable him to interact with facility at the highest levels in the

Ministries/Departments, it is recommended that the post of CGA should have the pay and status of ex-officio Secretary to the Government.

Para 7.16

56. As on 1.4.1990, only five officers in the ICAS had been promoted from Group 'B' on regular basis while 58 Pay & Accounts Officers were officiating in the Senior Time Scale without being actually promoted to the Service. Not a single officer regularly promoted to the ICAS after 1976 has become eligible for promotion to the Junior Administrative Grade of the Service. The Committee recommends that the recruitment rules of the ICAS should be amended to provide for (a) 33-1/3% of the authorised cadre strength of the ICAS to be filled by promotion from Group 'B', and (b) the officers so promoted to be placed in the Senior Time Scale of the Service.

Para 7.17 to 7.19

57. The responsibility for undertaking cadre reviews for Groups 'C' and 'D' staff should be undertaken by the CGA in consultation with the Ministries/Departments. The CGA should carry out cadre review of the Group 'B' cadre.

Para 7.20

58. At present officers are promoted to the ICAS at about the age of 55 years with the result that they are not able to contribute at senior levels before they retire. The Committee recommends a scheme of accelerated promotion under which 20% of the annual vacancies to the level of Pay & Accounts Officers and 20% of the total number of posts to be filled by promotion in a year to the ICAS be made from amongst those with outstanding records.

Para 7.22 and 7.23

59. The scheme of direct recruitment of SAS apprentices may be reintroduced in all the Accounts Cadres in order to build up a cadre of JAO of higher calibre.

Para 7.25

60. In the Indian Cost Accounts Service 95 posts are vacant against a cadre strength of 168. The Indian Cost Accounts Cadre may be merged with the Indian Civil Accounts Service. Induction of Chartered/Cost Accountants may be made into the Indian Civil Accounts Service at appropriately higher levels from among qualified and experienced personnel. Indian Civil Accounts Service officers may be offered incentives to qualify in the ICWA examination.

Para 7.26 to 7.29.

## ACKNOWLEDGEMENTS

The Committee acknowledges with thanks the generous assistance it received from all concerned in completing its assignment.


Most of the Secretaries and Heads of major Organisations and the CGA replied in detail to our Questionnaire. Most of them responded readily to our invitation to give oral evidence indicating their deep concern for the matters which were the subject of our review. Several retired Secretaries and Controllers General of Accounts very kindly met us and shared with us their rich experience. The office-bearers of the Associations of Officers and Staff of the Civil Accounts Organisation submitted memoranda which were informative and perceptive and our discussions with them provided us with valuable insights into organisational problems. To all of them we are deeply grateful.

We are especially thankful to Shri T.N. Chaturvedi, the then Comptroller & Auditor General of India, for giving us the benefit of his views on matters included in our terms of reference.

Most of the meetings of the Committee were held in the conference room of the Staff Selection Commission. We gratefully acknowledge the hospitality and assistance extended to us by the Commission and its staff.

The secretariat assistance was provided to the Committee by the office of the Controller General of Accounts. For this we thank Shri P.V. Desai, CGA and his predecessor, Shri S.R. Singh.


Shri R. Ramanathan, Asst. CGA, who was appointed to head our secretariat was unsparing in his efforts to meet our requirements of information and documentation. He deserves our special thanks for the efficient organisation of the Committee's work.



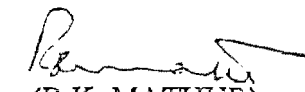
(S.C. MITAL)  
Member




(A.J.A. TAURO)  
Member



(S.C. KUCHHAL)  
Member



(R.K. MATHUR)  
Member-Secretary



(S.B. LAL)  
Chairman

New Delhi,

the 8th August, 1990

4. The terms of reference of the Committee will be as follows:

- (i) to undertake an in-depth review of the functioning of the departmentalised accounting system and assess to what extent integration with the administrative set-up has been achieved, and to what extent the departmentalised accounting system is fulfilling its management accounting role;
- (ii) to recommend measures to make departmentalised accounting a more effective tool for management accounting purposes;
- (iii) to assess the extent to which the departmentalised accounting organisation is fulfilling its primary role of timely and accurate accounts keeping and identify shortcomings and suggest remedial measures;
- (iv) to assess the function of internal audit in the departmentalised accounting system and recommend steps for strengthening it;
- (v) to review the organisational structure and role of the Civil Accounts Department, including that of Indian Civil Accounts Service and its effectiveness in discharge of functions relating to departmentalisation of accounts and recommend measures for effectively achieving the objectives.

5. The Committee will function on a part-time basis. Secretariat assistance will be provided by the office of the Controller General of Accounts. The Committee may devise its own procedure of work and consult such experts as it may consider necessary. It may also secure the services of Consultants after obtaining Government sanction. Ministries/Departments in Government of India will furnish such information and other assistance as may be required by the Committee.

6. The Committee will submit its report within four months.

7. TA/DA to Members of the Committee will be allowed as for a High-Powered Committee in terms of the Ministry of Finance, Department of Expenditure O.M. No.19020/1/84-E.IV dated 23.6.1986.

Sd/-

(A.Jayaraman)  
Joint Secretary to the Government of India

# ANNEXES

Handwritten text in a vertical column on the left margin, likely bleed-through from the reverse side of the page.

## LIST OF ANNEXES

Page No.

Annex `A`	Ministry of Finance letter dated 5.4.1989 constituting the Committee to review departmentalised accounting system.	86
Annex `B`	D.O. letter dated 26.6.1989 from the Chairman to the Secretaries to the Ministries/Departments of the Government of India.	88
Annex `C`	Questionnaire enclosed to d.o. dated 26.6.89.	90
Annex `D`	List of Ministries/ Departments/Parties to whom the Questionnaire was sent and the parties who responded/did not respond.	93
Annex `E`	Matrix of the Replies Received to the Questionnaire from Ministries/Departments and others.	96
Annex `F`	List of Officers who tendered oral evidence before the High Power Committee:	159
Annex `G`	Yardi Committee's Recommendations On Management Accounting System	161
Annex `H`	Orders issued by the President of India relieving the Comptroller and Auditor General of India from compiling the accounts of the Ministries/Departments of the Government of India.	167
Annex `I`	Scheme of Integrated Financial Advisers.	172
Annex `J`	Typical Scheme of Departmentalisation of Accounts in the Central Ministries/Departments.	176
Annex `K`	Organisational Chart of the Departmentalised Accounts Set-up in Central Civil Ministry/Department	182
Annex `L`	Copy of the D.O. Letter No.B-12020/1/78-CGA dated 4.5.1981 from Shri V.B. Eswaran, Secretary, Ministry of Finance, Department of Expenditure addressed to all the Secretaries in the Central Ministries of the Government of India.	183
Annex `M`	The Departmentalisation Of Union Accounts (Transfer Of Personnel) Act, 1976	184
Annex `N`	Closing Balances under some of the Suspense Heads.	186



**ANNEX 'A'**  
[Reference Paragraph 1.1]

No.F.1(15)-E(Coord)/89  
Government of India  
Ministry of Finance  
Department of Expenditure

New Delhi, the 5th April, 1989

**Subject:-** Constitution of a Committee to review departmentalised accounting system.

The separation of accounts from audit under the Central Government and the introduction of the departmentalised accounting system was completed in phases from 1.4.1976 to 1.6.1980. As a result, the Comptroller & Auditor General of India has been divested of accounting functions relating to the Central Government in all areas except civil pensions, and in respect of the Union Territories of Chandigarh, Lakshadweep, Dadra & Nagar Haveli.

2. The separation of Accounts from Audit and the introduction of the departmentalised accounting system under the Central Government has been a major administrative reform. The aim of the reform was to integrate accounts with the administrative set-up so as to make it a useful and relevant tool for management purposes.

3. Government have now decided to review the functioning of the departmentalised accounting system. A Committee with the following composition has been constituted for this purpose:-

- |    |   |     |                  |
|----|---|-----|------------------|
| 1. | Shri S.B. Lal, IAS (Retd.)  | ... | Chairman         |
| 2. | Shri A.J.A. Tauro, IAAS (Retd.)   | ... | Member           |
| 3. | Shri S.C. Mital, ICAS (Retd.)   | ... | Member           |
| 4. | Prof. S.C. Kuchhal,<br>IFCI Visiting Professor,<br>Faculty of Management Studies,<br>University of Delhi. | ... | Member           |
| 5. | Shri R.K. Mathur, IDAS<br>Addl. Secretary & F.A<br>Department of Food.                                    | ... | Member-Secretary |

**ANNEX 'B'**  
[Reference Paragraph 1.3]

S.B. Lal, IAS (Retd.)  
Chairman  
Committee to Review  
Departmentalised Accounting  
System

D.O. letter No.HPC/DAO/Q/  
Ministry of Finance  
Department of Expenditure  
Room No.207, Dak Bhavan,  
Parliament Street,

NEW DELHI-110 001

Dated 26th June, 1989

Dear

The scheme for the separation of accounts from audit and the departmentalisation of accounts of the Government of India was implemented in a time-bound programme in three phases in 1976 as a major administrative reform. In order to fully utilise the potential of the new accounting organisation, it was also envisaged that a suitable management accountancy system and a comprehensive management information system (MIS) would be built up in the Ministries for the proper interpretation and utilisation of accounting data to assist in policy formulation, effective utilisation of funds etc. It was recognised that these systems will have to be developed so as to suit the requirements of each Ministry/Department.

2. The following advantages were envisaged with the introduction of the new system:-

- i) Accounting would in effect become an aid to management at all levels in a Ministry for financial control and performance appraisal. Management at the formations subordinate to the Ministry would be provided with financial assistance and advice.
- ii) Duplication of accounting work then prevailing in the Ministries and Audit Offices would be avoided, thus providing more cost effective arrangements.
- iii) It would lead to speedy settlement of all claims including those of Government employees and avoid excessive documentation.
- iv) The centralised compilation of final accounts would speed up rendition of accounts to the Ministry of Finance and provide the necessary inputs to the management information system for financial control and performance appraisal.
- v) An effective internal audit with emphasis on propriety-cum-efficiency would be developed which could relieve the statutory audit of minor details and the latter could confine itself to major issues.

3. An Office of Controller General of Accounts was created in the Department of Expenditure of the Ministry of Finance for

- a) the maintenance of accounts under the new system;
- b) the coordination and assistance in the introduction of management accounting system in the Ministries/Departments; and
- c) the cadre management of the newly created Indian Civil Accounts Service and Group 'B' officers of the Central Civil Accounts Service. The Controller General of Accounts has thus been supervising the implementation of the new scheme.

4. With more than a decade of experience of separation of accounts from audit and the introduction of the departmentalised accounting system, the Government have now constituted a Committee to review the departmentalised accounting system in all its aspects. A copy of Ministry of Finance, Department of Expenditure letter No. F.1(15)-E(Coord)/89 dated 5th April, 1989 is enclosed (Annexure I) which gives the composition and terms of reference of the Committee appointed by the Government to review this system.

5. You will please observe that the Committee is required to undertake an in-depth review of the functioning of the departmentalised accounting system to see whether this major reform has achieved the objective of making accounts a useful and an effective tool for management purposes. The Committee is required to assess the extent to which integration with the administrative set-up has been achieved and whether the organisation is fulfilling its primary role of timely and accurate accounts keeping. It is also necessary to know whether the management accounting system and management information system have been introduced to suit the requirements of the Ministries/Departments. The Committee would greatly benefit from your considered views on the functioning of the scheme and your suggestions for such improvements as can be made so as to bring it closer to the objectives.

6. We have drawn up a Questionnaire (Annexure II) to elicit your esteemed views. As the Committee has a time-bound programme, I shall be grateful if your reply to the enclosed Questionnaire could please be sent to me by 14th July, 1989.

7. You are also requested to indicate whether you would like to come for oral evidence before the Committee.

With regards,

Yours sincerely,

Sd/-

(S.B. LAL)

Encl: Two

Shri  
Secretary to the Government of India,  
Ministry/Department of