MEMORANDUM

on the work of the

Public Accounts Committees in India

by

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(REPRINT)

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FOREWORD TO THE REPRINT.

This edition is merely a reprint of the previous edition with the addition of the appendix mentioned in paragraph 29.

M. F. GAUNTLETT,
Auditor General in India.

NEW DELHI,
27th October 1929.

FOREWORD.

It is unfortunate that it is impossible for the Auditor General to visit all the Public Accounts Committees in India. He has found, however, that some, at least, have no clear conception of the great importance of the duties entrusted to them or of the manner in which they should perform those duties so as to achieve the best results.

A recent address to the Public Accounts Committee in Burma, therefore, has been made the basis of the following brief exposition, which is now circulated in the hope that it may be of use to all members of Public Accounts Committees throughout India, and to those Executive officers who have to work in close touch with those Committees.

M. F. GAUNTLETT,

Auditor General in India.

NEW DELHI,
18th October, 1927.

THE WORK OF A PUBLIC ACCOUNTS COMMITTEE.

The object of this note is to explain to members of Public Accounts Committees throughout India the nature of the duties entrusted to them, the manner in which those duties should be performed and the results which may be anticipated if those duties are performed efficiently.

2. The most important power given to the Legislature in the first instalment of Reforms is the power of the vote. The local Government has to present to the Legislature various demands for the money to meet the greater part of its expenditure. It is, however, useless to give to the Legislature the power of voting money for particular purposes, unless the Legislature can be assured that the money is spent by the Executive for the purposes for which the money was requested. For obtaining this assurance the Legislature relies in the first place, and mainly, upon the Public Accounts Committee, which is assisted in the performance of its functions by the work which is undertaken, under the Auditor General, by the Accountant General of the Province. The latter compiles the Appropriation Accounts in which expenditure is compared with the detailed appropriations made by the Executive of the grant given by the Legislature and comments thereon, while the former in the light of those comments can, and should, examine the Executive as to the manner in which the money has been spent. The Accountant General should state in his Report that his comments may be based on an inadequate knowledge of the facts. The Committee should ascertain whether there are any other facts to take into consideration relating to a particular case and should then express a final conclusion on the case.

3. The duty of the Public Accounts Committee can be summed up in the brief yet important phrase that it is to ascertain that the money granted by the Legislature has been spent by the Executive "within the scope of the demand".

4. It is necessary to consider in some detail the implications of this phrase "within the scope of the demand". The first limitation which this phrase implies is that the money recorded as spent against the grant must not be larger than the amount granted. Therefore, the specific duty is imposed upon the Public Accounts Committee of reporting to the Legislature any case in which the expenditure against a grant has exceeded the amount of the grant. Once the power of the vote is given to the Legislature, it is inherently wrong of any Executive to spend against a grant more than the amount granted and the onus is thus thrown upon the Executive of explaining how the excess expenditure came to be incurred. Thus it is the duty of the Executive to make a demand for a supplementary grant to cover the excess. Before making the supplementary grant the Legislature is entitled to be satisfied that there are adequate reasons for making the supplementary grant. For the formulation of its views on this question the Legislature will necessarily rely very largely upon the advice tendered to it by the Public Accounts Committee

and thus it is necessary for the Public Accounts Committee to ascertain the causes of the excess and to determine whether those causes justify the granting by the Legislature of an additional sum to meet the excess. Any such enquiry may enable the Public Accounts Committee to bring under close scrutiny the scheme of financial control over the expenditure incurred against that particular grant and the method by which the progress of such expenditure is watched.

5. Even though the reasons for the excess may be deemed inadequate it is not usually deemed necessary for the Public Accounts Committee to recommend that the additional grant should be refused. In England the occasions on which an additional grant has been refused during the seventy years that the Public Accounts Committee in England has been in being have been very rare. There have, however, been a few such cases when the reasons for the excess expenditure have been so inadequate or so reprehensible in themselves that the Legislature has deemed it necessary to proceed to the extreme limit of refusing an additional grant to meet that expenditure. In England the result of such a refusal is that the amount of excess expenditure remains against the personal debit of the Accounting Officer (whose functions are explained in detail hereafter) unless and until the Legislature eventually agrees to vote the supplementary grant.

6. Another implication of the phrase "within the scope of the demand" is that the expenditure brought to account against a particular grant must be of such a character as to warrant its record against that grant and against no other. This implication is more important in England than in India at present, because in India a local Government plays no part in the record of expenditure against a particular grant and because the final authority for the classification of expenditure is the Auditor General. In England the question as to the grant against which a particular form of expenditure should be recorded has sometimes been a matter of acute controversy. In India the question will become of importance if a local Government ever becomes responsible for the maintenance of its own accounts. The question, however, at present is not important in India and, therefore, it is unnecessary to dwell upon it now in any detail.

7. The third implication of the phrase "within the scope of the demand" is of great importance in India and raises questions which are often difficult to decide. The Legislature is asked by the Executive to vote a lump sum as a grant in response to a demand made by the Executive. Theoretically speaking, that lump sum, once it has been granted, is at the complete disposal of the Executive to be spent on purposes covered by the grant. The fact remains, however, that the grant made by the Legislature is in response to a demand which is set before it in considerable detail and the Legislature may urge that there is a breach of faith on the part of the Executive if the amount granted is spent on purposes which are not set out in the detailed demand. The extent to which the reasonableness of this view is accepted is to be found in one of the statutory rules, issued under the Government of India Act, which requires the Executive to obtain an additional grant before money can be spent on "any new service not contemplated in the demand".

8. It is, of course, a matter of great importance to obtain a definition of the phrase "a new service". The question constantly arises in the Audit Offices under the control of the Auditor General whether a particular expenditure has been incurred on "a new service not contemplated in the demand". It has, therefore, been necessary for the Auditor General to enunciate a working rule to be followed by his officers when such a question comes up for decision. That working rule has been explained somewhat as follows: A new service may be a new form of service or a new instrument of service. It is desirable to explain by a concrete illustration the difference between these two. If in a province there is no Borstal Institute and one is inaugurated that undoubtedly is a new form of service. In every province there are jails. If it is decided to build a new jail this is not a new form of service because jails already exist. It is, however, a new instrument of service because it is a new jail additional to those already in existence. When expenditure is to be incurred on a new form of service, then in all such cases, theoretically, it should be held that the expenditure is to be incurred on a new service within the meaning of the Act. A new instrument of service, however, may be a new University, if there is already a University in the province, or it may be an additional chowkidar. The former may cost over a crore of rupees with very considerable recurring expenditure, while the Chowkidar may cost perhaps Rs. 60 a year recurring expenditure. It is not practical politics to insist that an additional grant shall be obtained to meet expenditure of Rs. 60 per annum on a new Chowkidar when there are already thousands in existence. It is, however, obviously essential to obtain an additional grant if the new instrument of service is to be of the importance of a University and to entail very considerable expenditure. Exactly where between these extremes the line of demarcation is to be drawn is a matter which must be settled by Case Law. It will probably be agreed that it is undesirable to leave so important a question in such an uncertain condition and that, when the Act is next amended, the opportunity should be taken to make the provisions of the rules under the Act more precise on this important matter.

9. Questions will frequently arise as to whether expenditure has or has not been incurred on a new service within the meaning of the Act. Cases of doubt may be brought to the notice of the Committee by the Accountant General. They may come to the notice of the Committee in the course of the evidence given to them by the witnesses who come before them. It is a very important function of the Public Accounts Committee to obtain by discussion with the Executive a clear enunciation of the correct interpretation of this phrase and also to draw the attention of the Legislature to the cases in which this rule, imposed by Statute, appears to have been violated by the Executive.

10. Subject to the limitation described above in respect of a new service, the Executive has full power of reappropriation within a grant. There is a general desire on the part of Legislatures throughout India

to scrutinise closely the exercise by the Executive of this power of reappropriation. The constitutional method of limiting the power of reappropriation, if a Legislature desires to achieve such a result, is to request the Executive to increase the number of demands, because the Executive has no power of reappropriation between grants. This matter is of special importance in Burma where the number of grants is far smaller than in any other province.

11. The extent to which the Legislature can control expenditure is governed very largely by the form of the demand. Too great facilities for reappropriation may induce laxity of control on the part of the Executive which will, or should, come to notice in the course of the scrutiny of the expenditure by the Public Accounts Committee. It thus becomes the duty of that Committee to bring to the notice of the Legislature any changes which it deems desirable in the form of the demands.

12. The last implication conveyed by the phrase "within the scope of the demand" is perhaps the most important. When a demand is presented to a Legislature, the Legislature is entitled to assume that the demand is for money which will be spent with due regularity, *i.e.*, in accordance with those rules of sanction and appropriation which are laid down by superior authorities to be followed by the subordinate authorities, whenever expenditure is incurred. Thus, expenditure which can be characterised as irregular cannot be regarded as falling "within the scope of the demand".

13. One of the most important duties of the Public Accounts Committee is the investigation of those cases of irregular expenditure which are brought to its notice by the Accountant General in the Appropriation Report. In the investigation of such an irregularity the Public Accounts Committee should obtain from an Executive a recital of the orders which should have been followed when the expenditure was being incurred. It should come to the conclusion whether such rules are complete in themselves or whether the irregularity was facilitated, in any way, by the inadequacy of the rules bearing on the subject. It would then be in a position to advise the Executive, either as to the manner in which the rules should be modified, or merely that there is a defect which should be modified. It would then become necessary for the Public Accounts Committee to determine whether the authority incurring the expenditure violated the rules which have been laid down and if so what excuse or justification he had for his action.

14. In one respect the work of a Public Accounts Committee extends "beyond the scope of the demand". There is legal opinion to the effect that the Committee is entitled to deal with any matter brought to its notice in an Audit or Appropriation Report prepared by an Accountant General, even though it may arise in relation to non-voted expenditure. There are many practical advantages in this ruling. Under the present definition of non-voted expenditure the two forms of expenditure are so closely interwoven that it is often impossible to explain an excess or deficit in the voted expenditure under a head without reference to the non-voted expenditure under the same head. Again voted and non-voted expenditure are often subject to the same rules, controlled by the same authority, and incurred by the same authority. Thus the investigation of an irregularity arising in connection with non-voted expenditure may indicate a defect in rule, a lack of supervision, or a failure to follow rule which might have had equally serious results had they operated in relation to voted expenditure.

15. There is considerable justification for the view that most of the embezzlements in India are due rather to neglect of rule or to inefficient supervision than to a defect in the rules themselves. That being so, the Public Accounts Committee should determine for itself whether disciplinary action is not desirable in the more reprehensible cases on the ground that the greatest deterrent against violation of rule or inefficient supervision is the knowledge that this may be met by punishment.

16. The most suitable way of advising a Committee as to the manner in which it should fulfil its responsibilities is to explain the procedure of the Public Accounts Committee in England because it was the great success achieved by that Committee which induced the Government to introduce as one feature of the Reforms the inauguration of Public Accounts Committees throughout India. It is worthy of mention that independent critics of Government organisation have spoken with approbation of the Public Accounts Committee in England as a unique feature, and one of the most important features, of the system of financial administration in England.

17. The Public Accounts Committee in England is elected annually by the House of Commons. It always contains members elected from each important party in the House and the Chairman is always a member of the Opposition Party. Although theoretically the members are elected, there has rarely, if ever, been a contest in the course of the election and it is probable that the selection of the members of the Committee is made by the various party whips in consultation. That the selection is made with great care is shown by the fact that though the Committee is elected annually, yet more than half of the members of every Committee will be found to have had considerable practical experience of the working of that Committee.

18. At each meeting of the Committee the first action taken by the Committee is to call before it the Comptroller and Auditor General and the senior officer of the Treasury responsible for accounts one of whose most important duties is to attend the meetings of the Committee as the representative of the Treasury. No record is published of the discussions between the Committee and these officials. It may be assumed, however, with confidence that the Committee discusses with these officials the more important questions that may arise in connection with the vote which is to come under consideration at that meeting of the Committee.

19. When this private consultation comes to an end the Accounting Officer responsible for the vote then appears before the Committee for

examination. The Accounting Officer for each vote is the officer who is held responsible for the regularity of expenditure from that vote. This responsibility is a very real responsibility and now the Accounting Officer is always the most important civil official in each department. The examination of the Accounting Officer is started by the Chairman of the Committee. Thereafter, each member of the Committee is entitled to ask questions. A complete record is maintained of the questions and answers and the Report of the Public Accounts Committee is based entirely upon the evidence so given. The evidence is so voluminous that its record usually fills nearly 600 pages of closely printed foolscap. Every Accounting Officer appears before the Committee and is examined by that Committee. The examination of the Accounting Officer of an important department may occupy two or three sittings of the Committee. If any question is put to which the witness is unable to give an immediate answer and the matter is deemed of importance the Accounting Officer is required to appear again before the Committee.

20. Under Rule 37 (*i*) of the Devolution Rules in India the Finance Department is responsible for laying the Audit and Appropriation Reports before the Public Accounts Committee. This is probably the reason why in most provinces the Finance Department assumes almost complete responsibility for presenting to the Committee the views of Government on the various questions raised in the reports. This tendency is to be deprecated The practice in England is that the representative of the Department responsible for incurring the expenditure answers to the Committee for the expenditure. The representative of the Treasury is present merely as an adviser to the Committee. This year a representative of each Secretariat Department of the Government of India was present at each meeting of the Central Public Accounts Committee at which the expenditure incurred within that Department came up for discussion. The results amply justified the adoption of this procedure. Its adoption is even more necessary in India than in England because the power of Departments other than the Finance Department to incur expenditure in India is far greater than the power of Departments other than the Treasury to incur expenditure in England. This assertion can be verified by reference to Rules 37 sub-sections (*a*) (in part), (*c*), (*d*) (in part), (*g*) (*iii*) (in part) and (*j*), 39, 40 (in part), 41, 42 and 43 of the Devolution Rules, which will show that the powers of the Finance Department under these sub-sections and rules are limited to report and advice.

21. It is noteworthy:—

(1) That the report of the Comptroller and Auditor General in England is very much shorter than the report of an Accountant General in India. This is due to the fact that the Public Accounts Committee in England knows its duty so thoroughly that it is unnecessary for the Comptroller and Auditor General to offer any suggestions in his report as to the questions which should be taken up for discussion in the Committee or as to the manner in which the enquiry should be made.

(2) That although the record of evidence is extremely voluminous, the report of the Public Accounts Committee is not necessarily a lengthy document. The Committee exercises great care in the selection of matters for record in the report and the report is almost always confined either to questions of principle or questions of real importance.

(3) That the Treasury in England has always attached great weight to any opinion expressed by the Public Accounts Committee. If the Treasury is of opinion that the Committee is wrong in principle it will place its arguments before the Public Accounts Committee which will then reconsider the whole matter. When such an issue arises the question is considered with great care both by the Treasury and by the Committee and and it is very rarely that these two authorities are unable to come to an agreement. Unless the Treasury decides that it is necessary to contest the opinion of the Public Accounts Committee, because important points of principle are involved, it usually accepts, or at least acquiesces in, the opinion.

(4) That the action taken by the Treasury on the preceding report of the Public Accounts Committee is reported to the Committee and is considered by the Committee very carefully, so that it may determine whether the action taken is adequate and whether any discussion on a point of principle should be continued. Any comments thereon are incorporated in the current report. The report by the Treasury of the action so taken is bound up with the current report so that a continuous record is maintained.

(5) That the examination by the Committee of an Accounting Officer is not confined to the matters mentioned by the Comptroller and Auditor General. The members of the Committee consider that they may ask any question in connection with the expenditure recorded in the accounts under consideration that has a financial bearing.

22. The great importance of ensuring continued effort in the work of the various Public Accounts Committees in India is worthy of emphasis. Each Committee should make a point of ascertaining from the Executive what action has been taken on the previous report and on any questions left outstanding from previous reports. Thus the Government of India prepares for each Central Public Accounts Committee a complete list of points outstanding from the previous reports of that Committee with an indication of the action which has been taken or which is being taken. This practice is worthy of adoption by other Public Accounts Committees in India.

23. The Public Accounts Committee in England holds annually between 35 and 50 meetings. Each meeting lasts about 2 hours. As has already

been pointed out, at every Public Accounts Committee will be found some members at least who have had considerable previous experience of the work of the Committee and there have been cases in which a Member of Parliament has been a member of the Public Accounts Committee for ten or more years consecutively.

24. Members of Public Accounts Committees in India can appreciate the public spirit which is evinced by a man who, in addition to his private duties, is willing to serve for years together not only as a member of Parliament, but also on a Committee which requires his services for two hours a day for 35 to 50 days in each year.

25. Such public spirit, however, reaps its reward. When Sir Charles Ryan—one of the ablest Comptroller and Auditors General in England—retired, the Public Accounts Committee took the opportunity to call attention to the results which had been achieved by the united efforts of that official and of the Public Accounts Committee. The following are extracts from the third report of the Committee of 1896 and from the comments of the Treasury thereon.

"The retirement of Sir Charles Ryan, K.C.B., ... affords a seasonable occasion for noticing the developments of the duties of the Comptroller and Auditor General during the last 20 years, and the admirable results, as evidenced by the Public Accounts, of the arrangements introduced by the Exchequer and Audit Departments Act of 1866. The striking contrast, from the point of view of financial regularity, between the period antecedent and the period subsequent to that measure shows it to have been in its peculiar field, an epoch-making statute.

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Since Sir Charles Ryan assumed the position in relation to the Public Accounts Committee which has been already described, the following developments have taken place under the working of the Act. The Army test audit was introduced in 1876. the Navy test audit in 1878, the Store audit in 1886, and the audit of the Army and Navy Manufacturing Accounts and of the Navy Expense Accounts in 1889 (52 and 53, Vict., c. 31).

At various dates, also, test audits of details have been applied to the Revenue Accounts, the present system of appropriating extra receipts in aid of Votes has been introduced: and many non-voted accounts have been submitted to the Comptroller and Auditor General.

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The effects of the improved financial system are plainly recorded in the Public Accounts. In the nine years from 1868-69 to 1876-77 the number of Civil Service and Revenue Department Votes which were exceeded by the expenditure was 233, or an average of more than 25 annually. During the last nine years, *i.e.*, from 1886-87 to 1894-95, there were only 18 cases excess altogether. In the last two years there has been no instance of excess.

On the other hand, accurate appropriation and exact audit have enabled the needs of the Public Service to be so nicely gauged that, whereas in 1868-69 the surpluses on Votes for Civil Services and Revenue Departments, in spite of the numerous excesses above mentioned, averaged about 3 per cent. on the total grants of the year, the average now has fallen to less than 1½ per cent.

But the real extent of improvement in the Public Accounts during the period which has elapsed since the Act of 1866 was passed cannot be shown by mere statistics. An examination of the Auditor's Reports will show, what the experience of your Committee confirms, *viz.*, a remarkable diminution of controversy on first principles and the disappearance to a great degree of impatience of scrutiny, a sure and honourable testimony to the value of the work, as well as to the discretion and tact of Sir Charles Ryan and his officers."

On this eulogy the Treasury made the following comment:—

"*T. M. 6, October 1898 on Second Report, 1898.*—My Lords desire, however, to place on record their satisfaction at the remarkable improvement which has gradually been effected in the system of Public Accounts during the last thirty years. The Public Accounts Committee of 1896 took the occasion of Sir Charles Ryan's retirement from the office of Comptroller and Auditor General to call attention to the "remarkable diminution of controversy on first principles and the disappearance to a great degree of impatience of scrutiny" which had characterised that period. Their observations could hardly be confirmed by stronger testimony than the Report of the Public Accounts Committee of 1898. Only two points requiring notice have arisen on the Appropriation Accounts for the Civil Services and the Revenue Departments, although those accounts relate to an expenditure of over £86,000,000, distributed over no less than 117 Votes, accounted for by distinct Departments. My Lords are most conscious that the present state of things is due in no small part to the annual labours of the Committee as well as to the constant vigilance of the Comptroller and Auditor General."

26. Before the War the margin between budget estimates and actual expenditure in England had been brought down to 1 per cent. During the War no attempt could possibly be made to achieve such results. After the War, when the Treasury and the Public Accounts Committee felt that sufficient time had elapsed for the removal of those causes set up by the War which necessitated very marked deviations between estimates and actuals, they again began to apply the steady pressure which they exercised before the War and in their last report the Public Accounts Committee was able to note with satisfaction that the difference between estimates and actuals had been brought below 1½ per cent. The difference

in most provinces in India and also in the Central Government is still between 5 and 10 per cent. and only one province has achieved results anything like as good as those which are obtained in England.

27. It may be argued that conditions differ so materially in England and in India that the English precedent cannot be followed in India and that similar results cannot be expected. It is true that the members of Public Accounts Committees in India cannot yet have gained the experience of the members of the Public Accounts Committee in England. It is for this reason that the Auditor General assists the various Public Accounts Committees in India by calling attention to those items in the accounts the scrutiny of which is likely to give the most valuable results. Moreover members in India can obtain the requisite experience if they will offer for re-election and if the convention is established that the majority of the members of a Public Accounts Committee must have had previous experience. It is true that the members of a Public Accounts Committee in India cannot be expected to meet nearly 50 times a year. It is equally true that so many meetings are not necessary for the efficient performance of the work of a Public Accounts Committee in India. This year the Central Public Accounts Committee examined the officer responsible for each Central grant, and, if this can be done by the Central Public Accounts Committee which works under the most difficult conditions, it ought to be possible for each provincial Public Accounts Committee to do the same. Even under present conditions it can safely be said that if a Public Accounts Committee in India will examine each officer responsible for a grant on each point to which the Auditor General draws attention valuable results will be attained.

28. There is no reason, therefore, why results should not be obtained in India as valuable, or almost as valuable, as those which have been obtained in England, specially in view of the fact that there is in India considerable room for improvement. But such results will not be obtained unless Public Accounts Committees throughout India apply that detailed scrutiny to the form of the demand and to the systems of financial control (including the watch of progress of expenditure) obtaining in the respective departments which has been applied for so many years by the Public Accounts Committee in England. Nor can those results be obtained unless the members of the Public Accounts Committees in India show the same degree of public spirit as has been shown for so many years past by the members of the Public Accounts Committee in England. If the former are prepared to work as the latter have worked, their results will be as creditable. The measures of success of a Public Accounts Committee in India will be the capacity to undertake the very important duties which have been entrusted to it. That capacity must be determined by the zeal and perseverance with which the members sit themselves to study the systems of financial control and by the tact with which they endeavour to convince the officials who appear before them that both members and officials, in putting questions and giving answers, are working alike for the ultimate good of the country.

29. In the appendix to this Memorandum are briefly explained the object of the Appropriation Accounts and the Report of the Audit Officer thereon, the constitution and functions of the Committees on Public Accounts and certain other important matters. This appendix contains in addition a glossary of certain technical terms used in the Report on the Appropriation Accounts of Railways in India and notes on certain technical accounting difficulties, the proper understanding of which should be of great importance to the members of the Committees.

APPENDIX.

1. **Object of the Report.**—The object of the Appropriation Accounts and the Report thereon is to present the audited accounts of all the expenditure of the year, whether voted or non-voted, in the form of a separate appropriation account for each grant, with the more important observations which the audit officers consider it necessary to make as a result of audit investigation. The publication is transmitted by the Auditor General to the Government concerned, and to the Secretary of State with reference to rule 15 of the Auditor General's Rules.

2. **Constitution and Functions of the Committees on Public Accounts.**—These Committees are statutory bodies, constituted in pursuance of Rule 51 of the Indian Legislative Rules and of Rule 33 of the Provincial Legislative Council Rules, for the purpose of dealing with the Appropriation Accounts of the Governments concerned and the Reports of the audit officers thereon and with such other matters as the Finance Department may refer to the Committee. The Auditor General in India and the Audit Officers concerned are usually invited to assist in the deliberations of the Committees.

In scrutinising the Appropriation Accounts and the Report of the Audit Officer thereon, it is the duty of the Committee to satisfy itself that the money voted by the Legislature has been spent within the scope of the demand. It is also the duty of the Committee to bring to the notice of the Assembly or the Council, as the case may be:—

(i) every re-appropriation from one grant to another grant;

(ii) every re-appropriation within a grant which is not made in accordance with the authorised rules governing re-appropriations, or which has the effect of increasing the expenditure on an item the provision for which has been specifically reduced by the vote of the Legislature; and

(iii) all expenditure which the Finance Department has requested should be brought to the notice of the Legislature.

The Committee is entitled to offer criticism and recommendations upon any matter discussed in the Report or in the Auditor General's forwarding comments, whether such matter concerns the accounts of expenditure, voted or non-voted, or those of receipts.

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

3. **General Remarks.**—It should be borne in mind, in considering the Appropriation Accounts and the Report thereon, that whilst they are framed on the best information available, and, in the great majority of cases, after

communication with the Departments concerned, they are necessarily prepared before the Departmental witnesses have been examined, and that they do not possess the same degree of authority or finality as the Report ultimately presented to the Legislature, by its own Committee on Public Accounts, after hearing evidence on the points raised herein. It may also be remembered that they necessarily deal only with the small percentage of cases which are important enough to require comment or investigation, and afford no indication of the standard attained in the administration of public expenditure taken as a whole.

4. **Distinction between matters relating to voted and non-voted subjects.**—A distinction is maintained in these Appropriation Accounts and Reports between voted and non-voted subjects, and the non-voted figures in the Appropriation Accounts are generally printed in italics.

5. **Demands for Grants.**—Under the Government of India Act the proposals of the Governor General in Council or the local Government in respect of moneys required for expenditure under certain heads are submitted to the vote of the Legislature. These proposals in connection with the votable part of the Budget are presented in the form of Demands which, when accepted, become Grants available for expenditure within the scope of the Demand. It is for the Hon'ble the Finance Member to settle the form in which the Demands should be presented, but ordinarily a separate Demand is proposed for each Department of Government. Each Demand contains, first, a statement of the total amount required, then, details by the sub-heads under which the Grant will be accounted for by the Department concerned, and lastly, a detailed estimate under each sub-head divided into items.

6. **Glossary of certain technical terms used in the Report on the Appropriation Accounts of Railways in India.**—(*a*) *Bonus System*.—An arrangement under which workmen are paid a certain fixed wage, calculated on time, for normal output, and in addition obtain a bonus for outturn in excess of the normal.

(*b*) *Depreciation* is the sum set aside from Railway Revenues to meet the cost of renewals of complete units of wasting assets.

(*c*) *Gross Earnings and Working Expenses* represent the true earnings and true expenses of a railway in an accounting period irrespective of whether the earnings have been realised or the expenses paid. They are the administrative figures of railway accounts. Gross Receipts and Expenditure represent the actual realisation and actual payments within the period, and are the figures employed for Budget purposes. The differences between these two sets of figures, *i.e.*, between "Earnings" and "Receipts" and "Working Expenses" and "Expenditure", appear under Suspense.

(*d*) *Indents for English Stores*.—See "Stores Indents".

(*e*) *Material at site account*.—The Suspense head "Stores" is credited with the value of stores, as soon as they have been issued from stock by debit to the accounts of the work to which issued. These stores, however, are not always consumed on the work immediately on receipt from stock, and till such time as they are actually put into the work, their value is temporarily held at charge of a sub-head of the account of the work known as 'Material at site account'. The sub-head is cleared from time to time as the materials are used on the work.

(*f*) *Neutral Control* represents the establishment, under control of Director of Wagon interchange, responsible for a watch over the wagons interchanged at certain junctions of certain Railways.

(*g*) *Non-Budget Lines* or *Worked Lines*.—These terms are employed to designate certain Branch and other railways which, though not constructed from funds provided by Government, are operated as parts of State Lines. The earnings and expenses of such Non-Budget Lines are at first included in the earnings and expenses of the Main State Lines which operate them, but have to be worked out and deducted from the total figures to bring out the true figures of the State Lines for the purposes of Government budgets and accounts.

(*h*) *Piece Work*.—An arrangement under which workmen are paid for work actually done instead of by time.

(*i*) *Quinquennial Programme* is a term applied to the forecast, which each railway administration is required to submit to the Railway Board in September every year, of expenditure to be incurred on capital works as well as on works of replacement and renewal during the following five years. This forecast is supported by details of works and notes justifying each work.

(*j*) *Renewal Suspense Account*.—This was a suspense account created on the Lucknow-Bareilly and Tirhoot Railways in order to secure a uniform debit to Revenue of expenditure on renewals deferred on account of the War. It has now been closed.

(*k*) *Reserve* is the amount set aside from Railway Revenues after meeting the total annual contribution to General Revenues.

(*l*) *Suspense Capital* is an account head to which are booked temporarily transactions relating to Stores, Workshop Manufactures, Recoverable Advances and items which, for any reason, cannot at once be charged out to a final head of account. The Suspense Account is cleared when, on the issue of stores or the completion of manufacture or final settlement of a transaction in any way, it becomes possible to allocate and transfer the charge to a final head of account.

(*m*) *Suspense under Revenue Receipts* is an account in which is recorded the difference between the true gross earnings of a railway in an accounting period and the money actually collected by the railway during the period. The amount under Suspense, therefore, represents earnings of a railway which have still to be realised either at its own stations or from Foreign Railways as well as moneys collected on behalf of other railways but not paid to those railways before the close of the accounting period.

(*n*) *Suspense under Revenue Expenditure* is an account head which is used to bring out the difference between the liabilities of a railway in respect of its staff during an accounting period and the amounts actually paid in liquidation of those liabilities. The Suspense account is cleared as items are paid. Thus the amount of the pay bill of the staff for the month of March are charged to final heads of account in March; but as payment is not made till April, the charge to final heads in March is balanced by a *per contra* credit to Suspense as "Demands Payable" in March, which credit is cleared when payment is made in April. This Suspense account also includes items of expenditure chargeable to Revenue but kept in Suspense pending adjustment against final heads, and also advances awaiting recovery.

(*o*) *Surplus Profits*.—This term is applied to the residue from gross earnings of a railway worked by a company after deducting the sum of working expenses, interest, and other miscellaneous charges prescribed in the contract between the Government and the Railway Company.

(*p*) *Stock Adjustment Account* is a sub-head of account of the capital suspense head 'Stores'. It is used to adjust temporarily the fluctuations in the book-value of stores due to revision of prices or to the adjustment of differences discovered in the course of verification of stock by actual count from the balances shown in the stores ledgers. The stock adjustment account is cleared by debit or credit as the case may be to final heads.

(*q*) *Stores Indents for " General Purposes " and for " Works "*.—The English grant placed at the disposal of each Railway is divided into two classes, *i.e.*, (*a*) Works Grant, and (*b*) General Purposes Grant. The former provides for all expenditure debitable to sanctioned works (additions and renewals) and the latter provides for all other expenditure and therefore includes expenditure on Stores required for General purposes of the Railway including Maintenance and Repairs. Separate indents are prepared for English Stores chargeable against each of these grants.

(*r*) *Throwforward* means expenditure expected to be incurred in a particular year, but actually incurred in the subsequent year.

7. Establishment and Tools and Plant charges in the Public Works Department and the method of distribution thereof among the various major heads.—Establishments employed by the Public Works Department are generally joint establishments employed on works charged under two or more major heads. The establishment charges of a Public Works division or office are in the first instance recorded under a single major head under which the division or office is classified for the purpose. At the end of the year they are distributed amongst the various accounts which record the expenditure of the Public Works Department in proportion to the works expenditure under each head affected. Any special establishment which is wholly employed on a work is, however, entirely charged to that work and is not included in these *pro rata* calculations. Similarly the cost of pur[illegible]lishments employed entirely on the management of irrigation or navigation works and the like or on the assessment, etc., of connected revenue, is charged direct to the Irrigation revenue account.

Similar remarks apply to the charges on account of ordinary tools and plant used in the Public Works Department. The cost of special tools and plant, by which is meant tools, plant or machinery obtained to meet the special requirements of a particular work or project, is treated as a direct charge to the work or project concerned.

8. **Method of adjustment of certain transactions relating to Public Works under the head "Suspense".**—(A) The minor head "Suspense" is not a final head of account for the record of expenditure. It accommodates *interim* transactions, concerning each of which a further operation (generally of payment or adjustment of value) is necessary before the whole transaction can be considered complete and finally brought to account. The simplest illustration of this is the purchase of stores on credit for a *particular work.* This transaction consists of the two subsidiary transactions of (*a*) the acquisition of the stores and (*b*) the *payment for them. As soon as the stores are* received, their value is at once finally charged to the work for which they were procured, but *this entry alone* would represent the payment of money, which has not taken place. Consequently, at the same time, a credit is accorded to "Suspense". When payment is made, the "Suspense" head is debited with their cost and thus "cleared" of this transaction.

In practice, therefore, "Suspense" presents an opening balance, debits and credits during the year, and a closing balance. The budget gives nothing more than the *net* difference between the debits and credits of the particular year, a positive (debit) provision meaning that the net value of suspense transactions is expected to increase during the year, while a negative (credit) provision indicates the reverse; that is, that the suspense head is expected to be "cleared" of some of its previous year's accumulated credits.

(B) There are two minor heads "Suspense" relating to works, one under "41—Civil Works" and the other under "55—Irrigation Capital Expenditure". Each is sub-divided into five detailed heads:—

(i) Purchases.
(ii) Stock.
(iii) Miscellaneous Public Works Advances.
(iv) London Stores.
(v) Workshop Suspense.

They are operated on as follows:—(i) *Purchases.*—When stores obtained in India are received but not paid for in the same month, their value is debited either to "Stock" or direct to the work concerned, as the case may be, and credited to "Purchases". When payment is made, the "Purchases" head is debited. Purchases must always therefore show a negative (credit) balance, which represents the value of stores received but not paid for.

(ii) *"Stock".*—Stores are debited to "Stock" if not required at once for particular works. Credits occur under this head when the stores are issued for use on works, the works then being debited. "Stock" therefore must always show a positive (debit) balance which represents the value of stock held by Government. It does not indicate whether this stock has been paid for or not.

(iii) *Miscellaneous Public Works Advances.*—These are of four kinds:—

(*a*) Sales on credit.

(*b*) Expenditure incurred on Deposit Works in excess of Deposits received.

(*c*) Losses, retrenchments, errors, etc.

(*d*) Other items.

Broadly speaking, debits are given to this head for any sums which have eventually to be recovered from other Government Departments, Government servants or private persons, the correct head of account to which the recovery is due being credited at once. This head must always therefore show a positive (debit) balance, representing recoverable amounts.

(iv) *London Stores.*—This head works in the same way for stores procured in England as the head "Purchases" does for those obtained in India. Stores are generally received from England in advance of advices of payments. Their value is credited to this head and debited to either "Stock" or a particular work. When payment is made, the head "London Stores" is debited and the unit "Stores" under the minor head "Deduct—English cost of stores and establishment" credited. If payment is made before the stores are received in India, the reverse operation takes place and "London Stores" is debited. A positive (debit) balance thus represents payments made for stores which have not yet been received and a negative (credit) balance the value of stores received but not yet paid for.

(v) *Workshop Suspense.*—All direct outlay on jobs executed in a workshop is debited to this head. When payment for the job is effected the head is cleared.

9. **Payments of commuted value of pensions.**—All payments on account of commutations of pensions whether made in England or in India, including payments made to other Governments, are brought to account, in the first instance, under the head "60-B—Payments of commuted value of Pensions", which is a capital head outside the Revenue Account, in the books of the central or the Provincial Government, as the case may be. At the end of the year such portion of the expenditure recorded under this head as the Government concerned may decide to charge against current revenues is transferred to the capital major head "45-A—Commutation of pensions financed from ordinary revenues". The net amount debited to the Capital Major head "60-B—Payments of Commuted value of Pensions", after deducting therefrom the recoveries, if any, from other Governments, is repaid from revenue either in a lump sum or by a system of equated payments, spread over 15 years, which include interest on the capital invested. Such equated payments are charged to the head

"45—Superannuation Allowances and Pensions" or other appropriate major head in the Revenue section of the accounts, by credit to (*a*) the capital head "60-B.—Commuted Value of Pensions" for the capital portion of the payments, and to (*b*) "19—Interest on Ordinary Debt" for the interest portion.

10. **Provincial Loans Fund.**—The Provincial Loans Fund was established with effect from 1st April 1925 to concentrate all loan transactions between the Central and Provincial Governments in a separate self-supporting fund, altogether independent of the Central Government debt, and to systematise the arrangements for administering these transactions. All advances granted by the Government of India to Provincial Governments are now made through this fund and the terms on which advances granted for various purposes are to be repaid have been standardised for all provinces alike. Definite principles have been laid down to regulate the purposes for which advances may be made to Provincial Governments and the rates of interest to be charged thereon. Prior to the institution of this Fund these advances used to be brought to account through the head "Loans between Central and Provincial Governments".

The Fund is now administered by the Government of India and its transactions are included in the accounts of the Central Government, though with future developments the administration of the fund may possibly be transferred to an independent body corresponding to the National Debt Commissioners in England, the Fund being then constituted as an entity entirely independent of the Government of India or of any Province.

All capital liabilities of the Provincial Governments to the Government of India on the 31st March 1925 were transferred to the Fund on 1st April 1925. Funds required for the purpose of new advances to Provincial Governments are advanced to the Fund by the Government of India from time to time, as required, and these, together with the payments falling due on account of previous loans, constitute the capital of the Fund. The Capital Account is also credited or debited with any surplus or deficit, as the case may be, in the Income Account at the end of each year after payment of interest to the Central Government and other expenses. Any surplus in the capital of the Fund which may not be required for the time being for the purpose of new advances may be utilised towards the reduction of advances previously made to it by the Government of India under such conditions as may be determined by the Government of India according to the circumstances of the case.

The income of the Fund consists mainly of interest received from Provinces on advances made to them out of the fund and of such interest as may be derived from invested capital. The charges against the Income Account are chiefly payments of interest to the Central Government. This account is also to be credited with gains or debited with loss on the realisation or revaluation of securities in which any portion of the Fund may be temporarily invested.

11. **Contribution by Railways to General Revenues and amounts accruing to Railway Reserve Fund.**—The main points in the constitution of this contribution and of the Reserve Fund are:—

(1) In consideration of the railway finances being separated from the general finances of the country, the general revenues receive a definite annual contribution from railways which is the first charge on the net receipts of railways.

(2) The contribution is based on the capital at charge and working results of Commercial Lines, and is a sum equal to one per cent. on the capital at charge of Commercial Lines (excluding capital contributed by Companies and Indian States) at the end of the financial year next but one preceding, *plus* one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition that, if in any year Railway Revenues are insufficient to provide the percentage of one per cent. on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good. The interest on the capital at charge of, and the loss in working, Strategic Lines are borne by general revenues and are consequently deducted from the contribution so calculated in order to arrive at the amount payable from Railway to general revenues each year.

(3) Any surplus remaining after this payment to general revenues is transferred to a Railway Reserve; provided that, if the amount available for transfer to the Railway Reserve exceeds in any one year three crores of rupees, only two-thirds of the excess over 3 crores is transferred to the Railway Reserve and the remaining one-third accrues to general revenues.

12. **21—Appropriation for Reduction or Avoidance of Debt.**—This head is intended for the record of appropriations from revenue for redemption of debt of the Central and Provincial Governments. The amounts debited to the head 'Sinking Funds' represent specific appropriations for regularly constituted Sinking Funds or Depreciation Funds for the redemption of loans raised by the Central and Provincial Governments, while the debits under 'Other Appropriations' represent appropriations for reduction or avoidance of debt otherwise than by means of regularly constituted sinking funds. The amounts are debited to this head by *per contra* credit to the Deposit head 'Appropriation for Reduction or Avoidance of Debt', which is debited with charges connected with the redemption of debt either by purchase and cancellation or by direct discharge. On actual cancellation of stock, the nominal value of the cancelled securities is written off the Public Debt Account.

Under the scheme of debt redemption adopted by the Government of India for the five years 1925-26 to 1929-30, the annual charge against

Central Revenues for the purpose of making provision for reduction and avoidance of debt is made up of—

(a) a sum of Rupees 4 crores, and

(b) such additional sum as is equal to one-eightieth of any excess in the total of the debt outstanding on the 31st March of the preceding year over the total outstanding on the 31st March 1923.

For the purpose of this scheme, the total debt outstanding on the 31st March 1923 has been taken as Rs. 8,46·78 crores, made up as shown below and the total debt outstanding on the 31st of March of any year subsequent to 1923 is such total as may be certified by the Auditor General in India to be the total arrived at by applying similar calculations for subsequent years:—

(Figures are in crores of rupees, sterling amounts being converted at Rs. 15 per £.)

	31st March 1923. Rs.	Rs.
Rupee Debt exclusive of Treasury Bills in the Paper Currency Reserve	3,61·42	
Sterling Debt	3,63·95	
Unfunded Debt	32·56	
Capital value of the liabilities undergoing redemption by way of terminable Railway annuities . .	91·97	
		8,79·90
Deduct—		
Discount included above but separately provided for	8·23	
Advances to Provincial Governments other than those representing Pre-Reform Irrigation Debt	24·89	
		33·12
		8,46·78

The obligatory charges against the annual provision for debt redemption are:—

(a) Railway Sinking Funds now in operation,

(b) Depreciation Funds of 1½ per cent. on the 5 *per cent.* Rupee Loans of 1929-47 and 1945-55,

(c) the capital portion of Railway annuities, and

(d) the capital portion of the annual payment in redemption of India's outstanding liability in respect of British War Loan.

The balance, if any, may be applied towards the avoidance of new borrowing or the reduction or repayment of such other debt as the Governor General in Council may think fit. Should, however, the total of the first four items exceed, in any year, the amount prescribed, the balance is to be charged to Capital.

18. **Famine Relief Fund.**—Under the Statutory Rules framed under the Government of India Act as they stood up to 1927-28, each Provincial Government was required to contribute from its resources a fixed sum every year for Famine Insurance. The annual contribution was devoted in the first instance to outlay on the construction of protective works and, if necessary, on relief measures, the sum not required for these purposes being utilised in building up a Famine Insurance Fund. The balance at the credit of the fund was regarded as invested with the Central Government which paid interest on it, and it was available for application, when necessary, to any of the objects mentioned above and also to the grant of advances to cultivators.

These annual appropriations to the Famine Insurance Fund were credited to a separate head, "Famine Insurance Fund", in the Debt section by debit to the head "43-B—Transfers to Famine Insurance Funds" in the Revenue section of the accounts. On the receipt side, the head recorded the transfer from the Famine Insurance Funds of sums required to meet famine outlay or outlay on Protective Works, the expenditure therefrom being included under "Famine Relief" or "Irrigation" along with similar expenditure from current revenues. The balance at credit of the Fund could be devoted to expenditure chargeable to revenue, as well as to advances to cultivators which are brought to account in the Debt section of the accounts.

The constitution of the Fund has undergone a radical change with effect from the financial year 1928-29. Under the new regulations the Fund has ceased to be an Insurance Fund. It is now called the "Famine Relief Fund" and will provide, as its main and primary object, for expenditure on Famine Relief proper, the word 'Famine' being held to cover famine due to drought or other natural calamities. Accordingly, the annual assignment from revenue, as well as the balances in the Fund till they exceed a certain prescribed amount, will not be expended save upon the relief of famine. Loans to cultivators will not be granted from the new Famine Relief Fund direct, but the Fund may advance money for financing the Provincial Loan Account if and when its balance exceeds the prescribed minimum. The balance at credit of the old Famine Insurance Fund on the 31st March 1928 has been transferred to the new Fund.

All direct expenditure on relief of famine is debited to the head "A"—Famine Relief" under the major head "43—Famine", while the unexpended balance of the annual assignments transferred to the Fund is debited to B—Transfer to Famine Relief Fund under that major head. Transfers from the balance of the Fund for expenditure on Famine Relief, on protective Irrigation Works or, when permissible, on other objects of a capital or revenue nature are credited to the head "XXXII—Transfers from Famine Relief Fund", in the Revenue Section of the accounts. The actual expenditure on famine relief or other objects met out of the Fund is brought to account under the appropriate major heads in the Revenue section or, in the case of expenditure normally chargeable to a capital head outside the revenue account, in the Capital section of the account, a lump transfer being made at the end of the year to the appropriate major head in the Revenue section of the amount met from the Fund. The interest payable by the Government of India on the balances of the Fund is adjusted in the accounts of the Central Government under "20—Interest on other obligations—Interest on Famine Relief Fund Balances". In the same way, the interest payable by the Provincial Government on advances to the Provincial Loan Account is charged to the same major head in the provincial section of the accounts under a separate minor head "Interest on advances from Famine Relief Fund for financing the Provincial Loan Account".

Advances from the Fund for financing the Provincial Loan Account are brought to account through the head "Transfers from Famine Relief Fund" under 'Section P—Deposits and Advances—Part II—Deposits and Advances not bearing interest.'

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(1)	(2)	(1)	(2)