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MADRAS RECORD OFFICE.**Government of Madras.***Public works* **DEPARTMENT.**

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*Proceedings of the Madras Government, Public Works Department,
4th September 1867.*

No. 80. Read the following Proceedings of the Government of India, in the Public Works Department, (Account), dated Simla, 25th July 1867, No. 738 A : —

Audit of Railway Accounts, Bombay.

Read—

Report with Appendices by Major Chesney, Accountant General, Public Works Department, on the audit of Railway Accounts, Bombay ; and letter No. 1,143, dated 3rd June 1867, from the Government of Bombay, forwarding papers showing the results of discussions held at Bombay during Major Chesney's late visit to that Presidency, on the subject of the audit of Railway Accounts, and requesting sanction to some slight modifications in the system of audit prescribed in Government of India's Resolution Nos. 1,009—15 A of 24th October 1866.

RESOLUTION.—The Governor General in Council is pleased to approve of the slight modifications in the system of audit of accounts of Guaranteed Railways as proposed by the Government of Bombay, His Excellency has only to request that care may be taken not to lose sight of the Fine and Deposit accounts, of which the entries are not to appear in the monthly accounts submitted by the Companies to Government. The Fine accounts should be administered in accordance with the principles approved in Public Works Department letter No. 377 R of 5th February 1866.

2. His Excellency in Council considers that the state of the audit of Railway Accounts in Bombay, as shown by these papers, is highly satisfactory, and desires to record his appreciation of the arrangements of the Government of Bombay which have led to this result.

ORDER.—Ordered that a copy of this Resolution, and of Major Chesney's report, be forwarded to the Government of Bombay for information and guidance, and to the Governments of Madras, Bengal, and Punjab, and the Accountant General, Public Works Department, for information.

(Signed) W. McCLEERY, C. E.,

Offg. Asst. Secy. for Secy. to the Govt. of India.

To the Secretary to the Government of Madras, Public Works Department, Railway Branch.

No. 81. ORDER THEREON, 4th September 1867, No. 2,715.

RAILWAY, No. 6.

Communicated to the Consulting Engineer for Railways for information.

(True Extract.)

(Signed) CHARLES A. ORR, Colonel, R. E.,

Secretary to Government.

To the Consulting Engineer for Railways, with one Enclosure.

Exd. S. T. Augustin.

Report by MAJOR G. CHESNEY, Accountant General, Public Works Department, on the audit of the Railway Accounts in the Bombay Presidency.

I arrived at Bombay on the 4th April, accompanied by Lieut. Filgate, R. E., Assistant Accountant General in this Department.

2. The new arrangements for drawing advances prescribed by the new rules had already been brought into operation, with effect from the commencement of the current year, and the other provisions of the rules were about to be introduced at the time of my arrival. Certain difficulties were anticipated in connection with them, which, however, were satisfactorily disposed of in personal communication with the Consulting Engineer's Department. The proceedings on this head will be found in Appendix A. A meeting was then held (Appendix B), at which the representatives of the two Railway Companies were present, and at which it was resolved to introduce the new rules at once; a slight modification being made, in that, subject to approval of Government, it was agreed to dispense with Form No. VII., showing the arrears in the accounts each month. I think that this return is not needed for accounts kept with the regularity and precision which obtain on these Railways.

3. Subsequently to the meeting I visited the accounts offices of both the Railways in Bombay, in company with Lieut. Filgate. The result of our observations were communicated (Appendices D and F) through the Consulting Engineer to the Agents and Chief Auditors of the Companies, and were discussed at meetings held for the purpose (Appendices E and G). The action taken in each case referred to having been sufficient and satisfactory, there is nothing remaining to be done which appears to call for the further notice of the Government of India.

4. Some observation on the present mode of conducting the examination of the books will be found in Appendix C. There is nothing in the matter calling for special remark in this report. The Examiner's duties appear to have been carried on with care and assiduity.

5. The accounts of the G. I. P. Railway have long borne a good reputation for the precise businesslike way in which they are kept, and which is fully maintained at present.

6. The accounts of the B. B. and C. I. Railway were in former years extraordinarily defective. But under the new administration of the affairs of the Company since 1865, a great reform has been made, and the change brought about since the accounts were last inspected by this Department, in December 1865, is very marked and satisfactory. An excellent system has now been introduced; and although the difficulties arising out of the old defects have not yet been quite surmounted, a few months more should see the accounts of this Railway in a very satisfactory condition.

7. The only point which appears to call for notice here, is one which has often come under notice before. A sum of about 200 lakhs stands at debit of the old stock account, and consists principally of London stores used in former years on works, but which, owing to the defective system then in force, were not charged off when used. The Chief Auditor's account and report on the case being not yet ready, I have been unable to offer an opinion upon it, and can only refer here to this important matter as one that will probably soon come before the Government of India.

8. It has been arranged with the Consulting Engineer that the audit of the Sind Railway and Indus Steam Flotilla shall be conducted by the Deputy Consulting Engineer in Sind, the examination of the accounts being made by the Accountant attached to his office. This will be preferable to sending the Examiner periodically to Sind from Bombay, as he has full employment with the two Railways at the latter place.

9. Thus the new system of Railway audit has been satisfactorily established in the Bombay Presidency, according to the manner contemplated by the Government of India. This result is due in great measure to the cordial support and assistance afforded by Colonel DeLisle and his department, and to the desire evinced by the representatives of the Railway Companies to co-operate heartily in the views of Government.

G. CHESNEY,
Accountant General, P. W. Department.

Bombay, 8th May 1867.

APPENDIX A.

Note on Mode of Introducing the new Audit Rules.

It is proposed by the Consulting Engineer that the Government of Bombay should issue a revised set of rules, in which a somewhat different arrangement of subjects has been followed, and which contains certain modifications of the original rules of the Government of India, adapted to the special circumstances of the railways in Bombay.

2. With reference to the personal discussion which took place at the Consulting Engineer's Office on the 6th instant, it is now suggested, as an arrangement calculated to procure a more speedy final settlement of the matter, that the original Government of India draft rules be at once adopted and promulgated, with such notes added explaining or modifying them as may be suitable to the case, and may be now mutually agreed on. It is believed that the approval of the Government of India will be readily obtained to such a supplement being added, it being an arrangement which indeed appears to be expressly contemplated by the rules.

3. The following are the points on which explanation appears desirable:—

Bombay Draft No. I.

4. This might be embodied in the orders of the Bombay Government issuing the rules.

Bombay Draft No. II.

5. The detailed information required by the Consulting Engineer to accompany the application for advances probably varies in each presidency. The minimum of information required has been specified in the Government of India rules.

6. Suggested that this draft rule be made a note to Rule I.

Bombay Draft No. VIII.

7. Proposed that this be made a note to Art. IV.

Bombay Draft XVI.

8. (Art. XI.) It should be understood that the Examiner takes the measures necessary to satisfy himself that the entries in the Cash Book are properly carried into the Journal and Ledger; the amount of scrutiny needful for this purpose must vary with the quality of the books kept by each railway: in some cases it may be necessary to follow every entry through the books, in others a much more rapid process may suffice. The instructions should be understood in that light, but it seems not desirable to specify what the exact process shall be.

Draft Rule No. XXIV.

9. The term "Stores Advance Account" should, I think, be charged to *Stores Account* or *General Stores Account*. The term is liable to be misunderstood, and

seems open to objection. An *advance* implies outlay of a special and temporary character, but the maintenance of a reserve of stores is just as much a necessary and permanent condition of things as the construction of the works. It is not a *final* head of charge, in the same sense as some of the heads of account (although it may be observed that even when the line is completed a reserve of stores will still be necessary); but the same may be said of a great many other heads, agency charges, workshops ditto, &c. The expenditure on all these is merely a mean to an end, and the amounts are strictly expense heads, finally cleared by other heads, yet we do not speak of the *Agency Advance Account* or the *Locomotive Shops Advance Account*. A *Stores Advance Account* would everywhere else be understood to mean an advance made for the purchase of stores, not the account of such purchase.

Bombay Draft No. XXV. [Art. XVII.]

10. This article was framed under the supposition that it was customary to keep separate store accounts of the stores at different places. Where this is not done it would not be necessary to alter the practice of the Company merely to conform to the rule, provided such movements of stores were methodically recorded in *some* books [not necessarily in *one* book only] available for purposes of verification.

Bombay Draft No. XXVII.

11. I understand this rule to contemplate the introduction of a check *not* yet in force, but no doubt very desirable?

Bombay Draft No. XXIX.

12. Proposed that this should be a *note* to Art. XX. The practice of stock-taking varies on different lines, and it seems preferable to express the formal rule in general terms.

Returns and Audit.

13. The audit of the accounts depends so essentially on the nature of the documents rendered on which the audit is based, that a few remarks are offered on the general subject taken as a whole.

14. The new system is based on the assumption that the railway company is to obtain a clearance monthly for its whole expenditure properly incurred. But in order to give the company a clearance it is quite necessary that an *account should be rendered* showing what the amount is which is to be passed. This is a fundamental principle universally observed in like cases. When a joint stock company's affairs undergo audit, it does not merely open its books to the scrutiny of the auditors, but it *renders an account*, and the auditors verify that account *by means of the books*; the audit is therefore the audit of the *account*, not of the *books*; the books are examined for the purposes of verification of the account rendered. And when at a meeting of shareholders the accounts are said to be

passed, it is not the books which are passed, but an account compiled from those books.

15. So with Government accounts. A disbursing officer submits schedules of works executed, receipts, measurements, and so forth; but he also submits an account bringing all these details together, and it is this account, and not the fragmentary papers which accompany it, which is passed. The latter are in fact the vouchers which prove the former.

16. In the case of detached officers it is necessary for them to send forward these vouchers, because local examination of their original accounts is impracticable; but in the case of the railway companies this has been obviated by appointing examiners, who have access to the original books, and certify that the account sent forward for audit is a faithful reflex thereof.

17. From another point of view also the matter seems plain enough. The Government auditor is to pass the expenditure recorded from time to time in the books of the Company; but he cannot do this unless the amount of this expenditure is somewhere stated; and an account of the kind proposed, *i. e.*, an account current, or statement of receipts and charges, is the form which by universal consent is admitted to be the most convenient for effecting the process.

18. The submission of such an account is, then, an essential condition of the new system, and will I hope be *insisted on*. A *monthly* account has been proposed simply because the Government, after full deliberation, has decided that the system of account through all departments should be based on monthly, instead of, as heretofore, on half-yearly, adjustments.

19. As to the particular form of the account, that is a matter of detail, and the notes to the rules expressly provide that it may be altered to suit the mode of book-keeping in force on each railway. Of course if that mode be so defective as to fail to give the *necessary* information, or to give it with trouble and difficulty, that might be a reason for moving the company eventually and gradually to modify their accounts; but in the first instance the form can be adapted to the conditions of book-keeping as now existing on each railway.

20. On the other hand, it appears very desirable that all parties concerned should clearly understand that the new system implies that the accounting does not wait for the audit, and that the railway company *does* obtain this full clearance monthly, and that in this respect the new audit follows the course of the change introduced of late years throughout all Government accounts. Under the old system the disbursing officer submitted his accounts for audit piecemeal, and until they were audited he was not at liberty to take credit for them. Under the new system he takes credit for all his expenditure; the *passing* the account is merely a formal record that the auditor has found nothing to object to; the audit follows the record, not the record the audit. So in the case of joint stock companies, the books are closed and the accounts made up *first*; the passing of the accounts is a subsequent operation.

21. This radical change, I may observe, is based on the consideration that retrenchments or disallowances are the exceptions to the rule; that the presumption is in favour of charges being in order and susceptible of audit; and that the inconvenience caused by keeping expenditure in suspense account pending audit is out of all proportion to the benefit derived from so doing; to which may be added that retrenchment is a most unsuitable machinery for dealing with the head majority of cases of unauthorized expenditure.

22. It of course follows from what has been said, that it would be incompatible with the new system to take up the schedules or other detailed accounts separately from or independently of the monthly account current. It is not in the least intended, however, that the Consulting Engineer should discontinue to audit the accounts himself, or that he should not give any detailed scrutiny to them when he thinks necessary. The process contemplated is this. The railway company submits an account showing the total receipts and charges of the month. The examiner verifies this account by means of the books, both as regards receipts and expenditure, and certifies to its correctness, adding any explanations thought necessary. The expenditure is shown in the account in an abstract or condensed form, and is supported by detailed schedules or other accounts working up to those condensed entries, i.e., the totals of these should agree with the total abstract entries.

23. As regards the mode of dealing with these detailed accounts the rules have purposely been expressed in general terms. By the term "supported" it may be understood either that the examiner has satisfied himself as to the existence in the company's office of such detailed accounts, registers, schedules, or whatever may be the form of document in use on the railway in question; or else that they are to be actually submitted, together with the account, to the Consulting Engineer for his scrutiny. Everywhere else, I believe, the former interpretation has been determined on, but it rests in each case with the Consulting Engineer to determine what the interpretation shall be. He is the auditor, and it is for him to decide what accounts shall be rendered to him for inspection. I will only express a hope that the matter may be carefully considered, and that, as a rule, the submission of all returns may be dispensed with which are not found really necessary; also that original returns may in all practicable cases be taken in lieu of copies.

24. If these views are concurred in by the Consulting Engineer and the Government of Bombay, then I think the rules will be accepted as they now stand; for they contemplate precisely the procedure, and the latitude in applying that procedure, which I have endeavoured to explain at greater length in this note.

(Signed) G. CHESNEY.

Bombay, 8th April 1867.

APPENDIX B.

Proceedings of a Meeting held at the Office of the Great Indian Peninsula Railway Company, Bombay, on the 23rd April 1867.

PRESENT:

MAJOR GENERAL RIVERS.	LIEUT. FILGATE.
MAJOR CHESNEY.	G. A. BARNETT, Esq.
CAPTAIN HANCOCK.	J. ROBINSON, Esq.
C. CURREY, Esq.	COLONEL DELISLE.
T. W. WOOD, Esq.	

It was observed that the new Rules for audit of Railway Accounts, promulgated in Government of India Resolution No. 1009-15A, dated 24th October 1866, have already come into operation, as regards the mode of supplying funds to the Railway Companies. It now only remains to determine the form of monthly account to be rendered to the Consulting Engineer upon which the audit will be made.

2. Forms [copies attached] of these Accounts, which have been prepared by the Chief Auditors of the respective Railways in communication with the Accountant General, were laid on the table and approved.

3. It was observed that the mode of audit would henceforward be as follows:—The books of the Railway Company would be written up in ordinary course from day to day, and the needful changes incurred carried to debit of Capital and Revenue, respectively, as soon as disposed of in the Accounts Office of the Railway Company. The entries made would be followed from day to day by the Government Examiner in the manner provided by the rules. So soon as the accounts for any month are posted in the principal books, the account, as per Form now prescribed, will be drawn up; this embodies in abstract form the transactions* which have been recorded in the books during the month, and shows more particularly the receipts and the expenditure charged to Capital and Revenue accounts, respectively.

4. The Examiner will certify to the correspondence of the accounts with the books, and will record any objections to charges which he may have to make in the Form (No. 7) provided for the purpose.

5. In the absence of any objections, the Consulting Engineer will then accord formal sanction to the charges debited to Construction and Revenue, respectively, as well as the expenditure out of Capital funds on the purchase of stores.

6. Thus the effect of this system will be the following modifications on existing practice:—

1. That the final charges to Construction and Revenue will be made at once in the Railway Company's books, in the order of occurrence, instead of being kept in

* Transactions relating to the Fine, Deposit Accounts, &c., would be omitted, as they do not affect the Capital and Revenue Accounts.

suspense pending audit. 2. The audit will be made once a month on this account, instead of being recorded from time to time on schedules, abstracts, or other detailed returns, rendered at irregular intervals.

7. It was resolved that the account for each month should be held to be due ten weeks after close thereof.

8. It was resolved that on the Great Indian Peninsula Railway Contractor's certificates, Store bills, &c., might be entered in a register, and sent over from time to time to the Consulting Engineer's Office for sanction, to be returned initialed as passed, for the Examiner's guidance.

And that on the Bombay, Baroda, and Central India Railway the original detailed schedules should be supplied to the Examiner, and, if required, be sent up for the inspection of the Consulting Engineer, to be afterwards returned.

9. It was observed, that in the case of any items being charged to Capital or Revenue to which objection might be taken by the Examiner and Consulting Engineer, they should be brought up at the next weekly meeting for consideration and disposal.

10. It was resolved that, subject to the approval of Government, the Statement of Arrear Account (Form No. 6) should be dispensed with. Such arrears are not of frequent occurrence in the accounts of these Railways, and when any exceptional cases occur, it will be the duty of the Examiner to bring them to notice in preparing his Audit Statement (Form No. 7).

11. It was observed, that whereas the Rules provide for advances of funds being made monthly, or more frequently if necessary, it had been arranged that a monthly credit should be given to each Company, but that the amount of this credit should only be transferred in the books of the Bank of Bombay, from the Government account to the credit of the Railway Company, by weekly instalments. This plan of course entirely meets the views of Government on the subject.

12. With reference to inquiry made, whether any further changes are likely to be introduced, the Accountant General explained that the proceedings which had been taken in the matter since the appropriation audit was first commenced to be undertaken had not in reality involved any intention of alteration. At the time of Mr. Kellner's deputation to Bombay, at the end of 1865, no definite information was before Government regarding the actual state of the accounts of the different Companies. Until this was obtained it was not practicable to lay down any definite rules; and the instructions which Mr. Kellner was deputed to give effect to were therefore necessarily of a tentative provisional kind. On receipt of Mr. Kellner's report, draft rules for general use were at once drawn up, which were then circulated for the opinions of the local authorities. Lastly, on those opinions being commu-

nicated, the rules were then revised in accordance with the different recommendations made, and published for adoption; while the Accountant General had now come to Bombay to assist in starting the new system, as now finally determined on.

13. It would thus be seen that there had actually been no change of plans throughout. It was believed that the rules as they now stood would be found to work satisfactorily, and there was no reason whatever to suppose that any further change would be likely to occur.

14. The following notes, explanatory of certain points in the rules, were read, and it was determined to add these at foot of the rules for general use, subject to the approval of Government:—

NOTE TO RULE I.

The application for advances should be sent in by the 20th of each month, and be accompanied by a memorandum of the sums required for each Department, to enable the Consulting Engineer to judge of the correctness of the amount applied for.

NOTE TO RULE IV.

The amount of the monthly Credit Order will be drawn from the Treasury in weekly instalments, which should be specified in a Memo. accompanying the application for advances.

Cheques drawn against a Letter of Credit for any month, but not presented for payment within that month, will be paid out of the Letter of Credit for the month in which it is presented for payment, as indicated in the Abstract at foot of Form No. 3.

NOTE TO RULE XI.

It should be understood that the Examiner may use his discretion as to the extent of the examination to be made in following the Cash book entries into the Journal and Ledger.

NOTE TO RULE XVII.

These books may be either in the Accountant's or in the Storekeeper's Office: it is only necessary that they should work up to the principal books.

NOTE TO RULE XX.

Stock may be taken either at fixed periods or continuously, but in either case the actual quantity found in hand should be entered in the Store Accounts for comparison with the book balances.

It was agreed that the G. I. P. Railway should furnish the new account for February 1867, and the B. B. and C. I. Railway from January 1867, and that these Rules with the Proceedings should be printed and submitted for the approval of Government, and adopted at once.

23rd April 1867.

Receipts and Expenditure on Revenue Account during February 1867.

[illegible]

(Signed)

Agent.

(Signed)

Chief Auditor.

Great Indian Peninsula Railway Company.

Receipts and Expenditure on Capital Account during February 1867.

	Rupees.	Cash.	Stores.	Rupees.
Cash Balance brought forward.....	Rs. a. p. 2,39,799 8 0			
Received from Government on account of Capital deposited in the London Treasury.....	13,50,000 0 0			
Capital raised in India	3,032 11 7			
Value of Stores used on Works (<i>see other side</i>)	13,02,260 10 4			
Refunds by Revenue.....	14,738 3 0			
Establishment		Rs. a. p. 14,471 2 1	Rs. a. p. 2,266 2 7	Rs. a. p. 16,737 4 8
Engineering and Surveying		1,110 0 0	1,557 7 10	2,667 7 10
Permanent Way.....				
Stations		1,01,348 6 9	2,16,790 12 10	3,18,139 3 7
Works		6,44,332 11 3	10,78,794 15 10	17,23,127 11 1
Rolling Stock, &c.		45,290 9 5		45,290 9 5
Electric Telegraph.....		2,950 1 6	2,851 3 3	5,801 4 9
Moody Bay Reclamation on account of Government		8,09,502 15 0	13,02,260 10 4	21,25,332 3 4
		13,568 10 0		13,568 10 0
		8,23,071 9 0	13,02,260 10 4	22,361 1 1
Stores and Materials purchased				747 6 8
On account of Revenue				102 10 4
Personal Accounts.....				3,032 11 7
Payments to Government on account of Capital raised in India				
Cash Balances carried forward				5,51,255 0 5
	Rupees..... 29,09,831 1 5			Rupees..... 29,09,831 1 5

Agent.

Chief Auditor and Accountant.

Bombay, Baroda, and
Account Current of CAPITAL Receipts and

RECEIPTS.	Amount.		
	Rs.	A.	P.
Balance brought forward (Cash)			
From Government :—			
Cash drawn on Credit order or Cheques against Letter of Credit			
Customs Duty			
Guaranteed Interest			
Capital raised in India			
Proceeds of Sale of Stores			
Advances repaid or covered by value received			
Value of Stores used on works and charged per contra			
Refunds			
Suspense Accounts distributed per contra			
London Board for Stores received			
Revenue			
Grand Total.....			

Agent.

Central India Railway.

Charges for the Month of _____ 18'

CHARGES.				Amount.		
				Rs.	A.	P.
	Establishment.		Other Charges.	Rs.	A.	P.
	Rs.	a. p.				
A { Agency						
Audit and Accounts Department						
Stores Do.						
Engineering Do.						
Locomotive Do.						
Carriage and Waggon Department						
Electric Telegraph Do.						
Medical Do.						
Police Do.						
Total.....						
WORKS :—						
B { Engineering.	Stores, including Carriage.		Other Charges.	Rs.	A.	P.
	Rs.	a. p.				
Special Superintendence						
Earthwork						
Permanent Way						
Construction Plant and Workshops						
Masonry Bridges and Culverts						
Ballasting						
Fencing						
Stations and Bungalows						
Iron Bridges						
Level Crossings						
Electric Telegraph						
Contingencies						
Locomotive—Construction						
Telegraph						
Total Expenditure for Audit						
C Stores and Materials purchased						
Advances to Contractors						
D Payments to Government { Proceeds of Sale of Stores						
Refunds and Bills cancelled						
E { Charges for Salaries and Works not yet adjusted						
Charge to Revenue						
Total Charges						
Balance in hand carried forward (Cash)						
Grand Total....						

Chief Auditor and Accountant.

APPENDIX C.

Mode of conducting the examination of the Railway Accounts.

The duties of the Examiner appear at present to be mainly confined to comparing the entries made in the cash book with the vouchers, and in following those entries into the journal and ledger. This is no doubt an important part of his duty; but care should be taken that it is not allowed to take the place wholly of that more general examination contemplated by the new system. This following out of the entries may be carried out further than is needful. It is scarcely probable that, in an office conducted with ordinary care, a cash book or journal entry should ever escape being carried forward into the ledger, or that an entry should be inadvertently carried to a wrong head. If the accounts of a company are laid open, as they now are, to the scrutiny of a Government official, we may be satisfied they will soon be established on a sufficiently methodical basis to bear that scrutiny. While, therefore, I do not wish it to be supposed that the check on separate entries should be given up, I think the examination may be performed quite as satisfactorily by *selecting entries* for check as by following every detailed item to its commencement or end; and clearly a check by selection of items may be made in quite as methodical a way as if every item were checked.

2. And quite as important as comparing entries with vouchers is the examination made to ascertain if the accounts be otherwise satisfactorily kept; that, *e.g.*, the charges are properly distributed between capital and revenue; that the supplementary accounts agree with the main books; that the total expenditure of cash and stores on a work is clearly recorded against the work, and compared with the sanction; that the store balances are clearly recorded, and verified by the actual results of stock-taking; that revenue is properly debited from time to time with the deterioration of stores (such as *fuel*) which, though standing at debit of capital, are maintained for revenue purposes; that outstanding advances are promptly realized; &c. &c. It is in matters of this kind that the Examiner, Government are principally involved, and it is regarding these that the Examiner, having free access to the books, should keep the Consulting Engineer duly informed. In short, the Examiner should apply himself to the accounts in the same sort of way as the Accountant General does during his inspections, but continuously, and of course going a great deal more into detail than it is possible for the latter to do.

3. When the Accountants of the railway companies find that their operations are thus daily scrutinised, we may be sure that they will soon take measures to have their accounts in every branch kept in clear and methodical form.

4. As to the actual process of conducting the examination of the accounts, the books ought to contain all the transactions of the company, and nothing

should be passed into them without the approval of competent authority; now before the entries are made in them, the Auditor of the company must perforce have clearly before him the means of arriving at the fact that each entry is a proper one, and whatever record serves him for his purpose should also serve the Examiner; consequently, when it is possible to do so, the work can be greatly facilitated by the Chief Auditor of the Company and the Government Examiner working in concert, and dealing with the books at the same time.

5. This may not always be practicable in Bombay, where the Examiner has to look after the accounts of two distinct companies; but, if the Auditors of the companies approve of the arrangement, I think the work thrown on the Government and Railway officials might be considerably lightened by following this course as far as practicable.

6. In cases in which the vouchers speak for themselves this plan need not be adopted, but there are cases in which it is necessary that the items should be thoroughly investigated before passing finally to account, as, *e.g.*, distribution of charges between capital and revenue; and it is in such cases especially that the plan proposed would be found advantageous. This would also remove the cause of the objection now made, that the Examiner takes up the time of the employees of the company, by calling for the information on which entries in the books are based, retaining the books when they are wanted by the book-keepers.

7. It will be gathered from the above remarks that I consider the audit sheets now compiled for the Examiner, which are very bulky, to be unnecessary; no compiled statements ought to be required other than those prepared for their own use by Railway officials.

8. With respect to the new monthly account, which will be the final record of the transactions of the month, whatever statements or schedules the railway account department finds it necessary to prepare in order to compile that account, should be sufficient for the Examiner to prove it by.

9. If the marking off entries after they have been checked could be dispensed with, it would be desirable. The needful record of progress in examination from day to day could perhaps be kept by entries in the diary.

10. *Examiner's Diary*.—This has been somewhat imperfectly kept. 1st, The dates of the different entries are in most cases wanting. 2nd, There is no record of the result of the different reports made and objections raised. It will be desirable that the Examiner in future should note this in the margin on each point being disposed of.

11. The omission of the G. I. P. R. Company to write off from their cash book their gross earnings paid into treasury should, I think, have been reported to the Accountant General through the Consulting Engineer, this being one of the cases contemplated by Art. XXI. of the Rules. As the case now stands, the books of the Company and Government do not tally.

(Signed) G. CHESNEY.

Bombay, 30th April 1867.

APPENDIX D.

Note on the Accounts of the G. I. P. Railway.

CASH.

Mode of showing Gross Earnings in Cash Book.—These gross earnings are now paid into Her Majesty's Treasury day by day, in the prescribed manner; they are not, however, so shown as paid away in the cash book, but form part of the nominal cash balance. It is true that the details of the balance at the end of the month are noted therein, under the heads

Her Majesty's Treasury, Bombay,
Her Majesty's Treasury, Poona,
Revenue Advance Account,

but only the last item is really cash belonging to the Company, against which the Agent could draw; the two first have been credited in the Treasury books to the *Revenue Account of the Company*, and have merged in the general cash balances of the Government.

2. Thus the cash book contains no record of a part of the transactions which actually take place daily, viz., the receipt of these gross traffic receipts before they are paid into the Treasury, which may be regarded as a separate and subsequent transaction.

	The nominal cash balances were	The actual cash balances were
	Rs.	Rs.
On 1st February 1867	94,74,602	3,83,062
On 1st March "	1,05,19,887	3,36,207

3. The Chief Auditor argues that the money, although paid into the Treasury, is paid in to credit of the Company. The terms of the contract, however, are that these receipts shall be paid in to credit of an account to be termed the 'Revenue Account of the G. I. P. Railway.' The Company have, I conceive, no power of drawing against this money, which is kept in the Government books quite separate from the drawing account.

4. This point has never been questioned by any other guaranteed company, and I hope the Agent and the Chief Auditor on consideration will be prepared to modify the mode of making these entries in the cash book.

5. *Practice of debiting Chief Auditor with payments on Suspense Accounts.*—These payments are not really made to the Chief Auditor, but to the Paymaster. It

would, I conceive, be preferable to debit a head *Suspense Account*, or account with some similar name. The propriety of making this modification will probably be admitted.

6. *Payees of Cheques not named.*—It is the practice now to draw cheques for wages, &c. as payable for wages, and so on; these cheques are usually made over to the Paymaster, and it appears obviously desirable that the cheques should have the payees' names recorded on them.

7. Of course this change would not prevent the payment being carried at once to a final head of service, if it be desirable to do so.

8. *Delay in writing up Cash Book.*—At time of my visit (8th April) the Capital cash book was written up only to 7th March. I recommend that it be made a rule to write up the cash book daily.

9. *London Board debited with value of Capital Stores expended.*—This somewhat peculiar arrangement is followed at the instance of the London Board, but no useful purpose would appear to be served by it; on the contrary, it would be in every way preferable to charge the head of service on which the stores have been expended. Probably the London Board would not object to forego their requirement in this respect on the case being put to them, which I suggest should be done.

10. *Copies of Vouchers sent to London Board.*—This may have been proper at a time when the audit in this country was made only on compiled accounts sent forward by the Agent to the Consulting Engineer; but, now that the original records and vouchers undergo detailed examination by an officer of Government, it appears unnecessary to continue it; and, it being desirable to stop all needless copying and accounts, a proposal to this effect might be made to the Home Board.

11. *Adjustment of Stores.*—It is understood that the adjustment of the charges for stores expended on Capital and Revenue will now be made monthly, instead of half-yearly.

STORES.

12. *Store Accounts of Chief Auditor's Office.*—The store accounts kept in the Chief Auditor's Office appear complete and systematic, while the accuracy with which the detailed balances of the store ledger work up to the balance in the general books is remarkably satisfactory. But one point appears to me worth notice.

13. The verification of the nominal store balances seems to be not altogether complete. The process of stock-taking goes on regularly, but the differences found to exist, and alteration of the balances to accord with the facts, appear not to be recorded altogether so methodically as might be desired. It is not to be expected that the differences will invariably be small, and it will probably be deemed desirable that a distinct procedure should be adopted for

recording the differences as they occur, and bringing them officially to the notice of the Consulting Engineer. One of the main difficulties in store accounts probably arises from a supposed necessity to maintain the book balances intact; whereas some loss and errors will undoubtedly occur in all stores, no matter how carefully they may be kept. In the P. W. store accounts the balance returns contain two columns, one for book balance, the other for actual balance whenever counted or measured; and the rule is to bring forward the latter balance in the next half-year's return, so that the returns may always agree with the facts as far as ascertained. The discrepancies thus written off from time to time are dealt with on their own merits. If trifling, and such as might fairly be expected to occur in the ordinary course of business, they are simply made a charge, without further inquiry; if they are excessive, inquiry is made; but the writing off and adjustment precedes the inquiry. And it might be found useful to adopt a similar plan here, on the understanding that the Consulting Engineer's Department is duly informed from time to time of the amounts thus written off.

14. *Stores Advance Account.*—It is understood that this is to be abolished in the Government records.

15. *Pre-sanction to payments for Stores.*—I do not press the abolition of this practice, although the value of it is not very apparent. The propriety of a purchase can hardly be judged of by mere scrutiny of the bill; the balance of the goods on hand, and the extent of the demand for them, require to be known. And it seems doubtful whether it is well to relieve the Agent from the responsibility for purchases made by him.

16. *Stationery.*—It is suggested for consideration that this article of stores be charged off, when purchased, to Capital and Revenue in the proportion of expenditure incurred on those accounts, the returns being kept by quantity only, without money values attached.

ACCOUNTS OF STORE DEPARTMENT.

17. These accounts appeared not to be up to the standard arrived at in the other departments, the principal point which came to notice being that there is absolutely no record in the Storekeeper's Office of the balances on hand. His so-called ledgers are in fact nothing more than two registers, one of receipts and one of issues, the labour of keeping which is, I should think, out of proportion to the value of the results produced. To get information about the balances of goods under his charge, the Storekeeper has to refer to the Chief Auditor; I would recommend that regular numerical ledgers—it does not seem necessary or desirable to price them—be opened on 1st July next with the actual balances on that date. Nor is there much time to spare to arrange for this being done.

18. Another point seems proper to notice. It appears to be the recognised practice for the Storekeeper to make purchases on his own authority. I think the sanction of the Agent should first be obtained for all but small purchases.

ACCOUNTS OF LOCOMOTIVE DEPARTMENT.

19. These accounts appeared to me to be generally very well kept.

20. The mode of charging off stores is not quite precise.

21. The Chief Auditor sends detailed lists, gathered under heads, of stores certified to have been received by Locomotive Department during the month—

1. Of stores appropriated direct to works.

2. Of stores brought on to stock of Locomotive Department.

As regards the first, the Chief Auditor's return shows the issues under general heads, as 'erecting engines,' whereas the Locomotive Department has a separate account of each engine or work done, to which the stores are charged. This further division is made by means of red ink entries on the Chief Auditor's list, based on information supplied by original indent. Thus the Locomotive Superintendent really gets the facts from his own accounts.

22. It would perhaps be a better plan if the operation were reversed, and the Locomotive Superintendent were to make out the list in his Office, and afterwards send it to the Chief Auditor for check, since the former has more detailed information than the latter.

23. The issues of stores from stock are obtained by means of returns from the former showing the allotment of stores issued. The arrangement is not very precise. The money balances of the departmental store ledger do not agree with the balances of the Chief Auditor's books; they have been worked out independently by the two departments from the indents. It will be desirable that the two accounts should be agreed as soon as possible.

24. The overtime money earned by the engine-drivers is unusually large, often exceeding their regular pay. An ordinary day's work being reckoned at 7 hours, it appears that the engine-drivers often work for a whole month at an average rate of from 18 to 20 hours.

MISCELLANEOUS.

25. It would appear that the London Board drew a bill on the Indian Treasury for the sum of Rs. 3,79,391-7-0, the moiety of surplus profits above five per cent. for the half-year ending 30th June 1866, which the Accountant General paid, charging apparently to London. But I think the charge should have been made as a payment to the Agent in this country, so that it might be adjusted through the Indian books. The Government have lost the benefit on the gain by the exchange. The Accountant General, Bombay, should be moved to readjust this item accordingly.

(Signed) G. CHESNEY.

Bombay, 1st May 1867.

APPENDIX E.

Proceedings of a Meeting held at the Office of the Great Indian Peninsula Railway Company, Bombay, on the 3rd of May 1867.

PRESENT:

MAJOR GENERAL RIVERS.
COLONEL DELISLE.

MAJOR CHESNEY.
J. ROBINSON, Esq.

G. A. BARNETT, Esq.

Read printed proceedings of previous meeting held on 23rd April 1867.

Read Major Chesney's note on the accounts of the G. I. P. Railway.

With reference to paras. 1—4, it was agreed that the traffic receipts paid into Treasury should be written off daily in the cash book to the debit of a revenue account for cash deposited in H. M.'s Treasury, whereby Major Chesney's objection would be entirely met.

Para. 5. It was agreed that the heading of the Suspense Account referred to should be altered to "Cashier."

Para. 6. It was explained that cheques were payable to bearer, and that the system of entering the department had been adopted for convenience.

Para. 8. General Rivers agreed with Major Chesney that it was not desirable the cash book should be so much in arrears as it happened to be on the day of Major Chesney's inspection.

Paras. 9 and 10. It was agreed that the matter should be referred for the orders of the London Board.

Para. 11. It was agreed that stores should be adjusted monthly instead of half-yearly, and that the adjustment should be made by cheque.

Para. 13. Mr. Barnett explained that stock-taking was continuous, and that corrections were made in accordance with the results, also that it had been the practice to report them to the London Board, although not to the Government audit department. It was agreed that the accounts to be written off for deficiency of stores should in future be entered in the weekly list of sanctions when they exceed Rs. 500, and that provision should be made in the store books for recording both book and actual balances as counted.

Para. 18. It was explained that the system of store accounts in force in the Storekeeper's department was about to be altered immediately, when new books capable of balancing would be introduced.

Para. 19. It was explained that the Accountant General had been somewhat misled on this point, for that in fact the purchase of stores was kept under strict regulation by the Agent. Large stores are purchased by tender, and certain petty stores only can be purchased from a supplier or dubash, and then only on schedule of prices approved by the Agent.

APPENDIX F.

Note on Accounts of Bombay, Baroda, & Central India Railway Company.

AUDIT.

The following alterations it is understood will now be made, in conformity with the new audit.

2. The affording credits to departments by debits to service heads will no longer wait for Consulting Engineer's audit.

3. The head *Unpassed Expenditure* will therefore be disused.

4. The initials of Examiner on departmental distribution sheets will no longer be required prior to posting.

5. The audit, it may be noticed, will be given on the charges inclusive of the liabilities unpaid.

ACCOUNTS.

6. Before proceeding to indicate the points in which there appears to be still room for some further modification and improvement, I should testify to the very great improvement which has been introduced into the accounts of this railway under Mr. Wood's superintendence, and since they were last inspected by this department.

7. *Cash Books.*—Two cash books are now kept, one dealing with the advances from Government for capital and revenue, the other with the traffic earnings and miscellaneous receipts. Considering that the Cashier also keeps a very complete cash book of all receipts and payments, divided under sub-heads, and with the balances proved monthly by detailed statements of unpaid claims, I think one cash book might suffice for all the transactions of the Company, each separate account being sufficiently distinguished in the ledger.

8. *Engineering Schedules.*—These contain a recapitulation of works not in progress, by omitting which the labour of preparing them might be reduced.

9. *Register of Engineering Works.*—The charges for labour are divided by sub-heads, but not those for stores. Either the one is not necessary, or the subdivision should be carried out with the stores also.

10. *Engineering Department.*—This head in the ledger shows the liabilities of the Engineer Department both for cash and stores, and the balance of cash cannot be told from it. Suggested as an improvement that the account be separated into two: one termed Engineering Department for cash, the other Engineering Stores.

11. *Capital Expenditure*.—This is now kept under a great many heads, several of which, especially those not likely to arise again, might now, I think, be brought together: while all might perhaps be kept with advantage in a subordinate ledger or register, and collected in the main books under the general head *Capital*.

12. *Account with Government*.—There are now separate accounts in the ledger, termed *Bombay Government General Construction Account*, and *Bombay Government Stores Advance Account*. But it is intended that these shall now be amalgamated with reference to points already agreed on.

13. *Personal Ledger*.—This is one of the accounts which has not been yet quite perfectly adjusted, the balance of this ledger being said not to agree altogether with that in the general ledger. The matter is now engaging the Chief Auditor's attention.

14. *Engineering Department Ledger*.—The ledger postings are distributed between capital and revenue, but the journal entries are not. Consequently the ledger cannot be posted from the journal, but supplementary returns have to be referred to. Apparently, therefore, either the journal should give the information required, or else this distribution might be omitted.

15. *Outstandings due*.—The revenue audit accounts showed Rs. 67,000 to be due from Commissariat on 1st January 1867. The Examiner should bring all cases of delay in settlement of claims by Government departments to notice of Consulting Engineer.

STORES.

16. *Stores expended to be charged off monthly to service heads, instead of half-yearly*.—It is understood to be settled that this shall now be done, with effect from commencement of current half-year.

17. *Adjustment of old Store Accounts*.—The balance at debit of general stores to the 31st December 1865 is Rs. 2,25,53,158-2-8, which has been for the present, pending adjustment, carried to a suspense head termed *Stores Department Old Account*. On 1st January 1866 a new account was opened with the value of the actual balance of stores then found to be on hand, Rs. 18,92,822-14-1. The enormous sum now standing at debit of the old account is principally due to a credit afforded to London for stores shipped by the Board in former years, and which, under the imperfect system of account then in force, were not brought on to the books at a money value. This debit has now to be relieved by charges to the works on which those stores were used; but it is understood that considerable losses are also included in the account, which will have now to be written off. An elaborate account, it is understood, is now under preparation, compiled from the best information to be obtained, showing how the total amount is made up; i.e., how much of the total debit is for

London stores, how much for stores procured in India, how much can be shown to have been actually expended on works, and how much cannot be accounted for. I was in hopes that this account would have been available for inspection during my visit to Bombay, and that I might thus have had an opportunity of recording an opinion on it for the information of Government. But the case, which is no doubt a very laborious and difficult one to prepare, is not yet quite complete; and I can therefore only remark on the importance which Government attaches to its being disposed of with the least possible delay.

18. *Charge for adjustment in rate of exchange*.—A sum of Rs. 14,26,777-8-1 stands debited to an account termed *Exchange Account on London Stores*, being the difference between 2s. and 1s. 10d. the rupee on the London stores shipped up to end of 1863, from which date the latter rate was adopted. The latter rate was of course the proper one; but although the Government may be prepared to admit the adjustment, the case should, I consider, be referred for orders before being disposed of.

19. *English Stores Suspense Account*.—The amount at debit of this account on 1st January 1867 was Rs. 11,56,817-12-1, principally representing the value of London stores at sea, but partly, it is presumed, old losses at sea. Here also it is very desirable that an adjustment should be made as soon as possible. The matter, I am aware, is receiving careful attention.

20. *Departmental Stores Accounts*.—The balance at debit of these accounts is the difference between the debits and credits given from time to time, but they have not been verified. The stores on hand have been counted, but the correct balances have not been brought on to the books. It is suggested that, for the future, in all store accounts the process of verification be carried on regularly and periodically, and that the actual balances be always brought forward in the half-yearly returns, the difference between those and the book balances being separately recorded, and dealt with on their merits. Trifling discrepancies could be admitted without notice; larger differences would be specially inquired into. But it is strongly recommended that the facts be always accepted in the first instance as the basis for the book entries, and that inquiry should follow, and not precede, the adjustment.

21. *Store Audit and Store Departments*.—These now occupy the same building, and a good deal of the accounting done by the one is also done by the other; the principal difference between the two sets of books being that the Store Accountant keeps his store ledger by quantity, while the store branch of the Chief Auditor's Office keeps accounts of money values. If a separate audit branch is considered necessary, then perhaps it would be better to keep it separate from the Store Department. But it seems worthy of consideration whether, in place of these complete and copious double sets of books, it would not be preferable, as well as more economical and sufficient, to keep all the store accounts in the Storekeeper's Office (a very slight change in his books would suffice), and

to check them by means of an officer deputed from the Chief Auditor's Office, who would examine them in the same way as the Government Examiner examines the other accounts.

22. *Mode of accounting for Store purchases made by Engineers in the Districts.*—Such purchases are now carried through the store accounts just as if they had actually been purchased and issued by the Storekeeper; this plan is even carried to the length of requiring the Engineer to submit a formal indent to the Storekeeper for articles which he had already himself bought and used. I would suggest that this practice be modified. Such a mode of supply should no doubt be kept under control, but this may be effectually done by requiring the Agent's sanction to such purchases. When made they might be charged direct to the works on which they are used.

23. *Stationery.*—This is now kept at a money value. I recommend that it be charged at once to capital and revenue *when purchased*, in the proportion of the expenditure incurred on those heads during the month. Control over consumption of stationery can no doubt be equally well secured by numerical as by priced returns.

ESTABLISHMENT.

24. It will be gathered from the foregoing remarks that I think a reduction in the amount of accounting, and consequently of the establishments employed, may perhaps be found practicable. The improvement which has lately been made in these accounts during the last two years, and the method or order which Mr. Wood has introduced into them, constitute a remarkable and important reform. But the natural tendency in trying to overcome a state of confusion, arising in great part from insufficiency of record, might perhaps be to run somewhat into the other extreme. Considering the high proportion to receipts of the working expenses on this line, the necessity for keeping down establishments to the lowest possible point will readily be admitted; and the question, whether some parts may not before long be susceptible of reduction without sacrifice of efficiency, will, it is hoped, be kept in view.

Bombay, 2nd May 1867.

(Signed) G. CHESNEY.

APPENDIX G.

*Proceedings of a Meeting held at the Consulting Engineer's Office,
4th May 1867.*

PRESENT:

COLONEL DELISLE, R.E., CONSULTING ENGINEER FOR RAILWAYS.

CAPTAIN HANCOCK, R.E., DEPUTY DO.

C. CURREY, ESQ., AGENT B. B. AND C. I. R. COMPANY.

T. W. WOOD, ESQ. CHIEF AUDITOR DO.

MAJOR CHESNEY, ACCOUNTANT GENERAL.

Read Major Chesney's note on the accounts of the Bombay, Baroda, & Central India Railway Company.

The proposed alterations in the audit described in paras. 1 to 5 were agreed to.

Para. 7. Mr. Wood stated that the present plan had some advantages in point of convenience, and that for the present he proposed retaining it.

Para. 8. The Agent doubts if the proposed alteration is desirable, but the matter would receive consideration.

Para. 9. The Chief Auditor explained that it was intended the subdivision of charges should be carried out for stores as well as for labour.

Para. 10. The improvement suggested will be considered and probably adopted.

Para. 11. This has already been done to some extent since the Accountant General inspected the office books, and the arrangement will be extended as far as may be found convenient.

Para. 14. Arrangements have already been made for a reform of this proceeding.

Para. 16. Agreed to.

Para. 17. A full report is now under preparation on this subject, and any discussion may be deferred till it is ready. The representatives of the Railway Company would prefer not to express any opinion on this occasion on the Accountant General's remarks.

Para. 18. The case will be referred for orders by the Consulting Engineer before the charge is passed by him.

Para. 20. The principles stated in this paragraph are approved, and are already in operation.

Para. 21. The Agent stated that the subject of store establishments had been under consideration for the last eighteen or twenty months, and that when the old store accounts are cleared up, it may be possible to reduce or amalgamate the establishments.

Para. 22. It was agreed that the subject should be taken into consideration, and the proposal acted on if found practicable and desirable.

Para. 23. It was explained that the establishment employed on the stationery accounts consisted of only two clerks, and the Chief Auditor considered that the advantage was in maintaining the present system; the establishment is not expensive.

Para. 24. The Agent said that the subject of establishments would be kept in view, but that he did not consider the present establishments were at all excessive.

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Report by Accountant General, P. W.
Department, on Audit of Railway
Accounts in Bombay.

Dated Bombay, 8th May 1867.

3rd March 1867 by A. N. S.

27/5
27/5
Communicated to the
Consulting Engineer for
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J. N.
W. B.
W. B.

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