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AN
INTRODUCTION
TO
INDIAN GOVERNMENT AUDIT

BY
M. F. GAUNTLETT, I.C.S.

Comptroller and Auditor-General to the Government of India



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INTRODUCTION.

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

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

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

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

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

a comparatively early date, and, when the questions above mentioned have been decided, it may be found desirable to issue a new edition in which any defects found in this edition can be rectified.

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

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

M. F GAUNTLETT

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An Introduction to Indian Government Audit.

PART I.

A general sketch of the purpose and system of audit.

CHAPTER 1.

The purpose of audit

1 Before discussing the principles of that particular branch of audit with which it is proposed to deal, it is necessary to ascertain what is meant generally by the term "Audit" An excellent explanation can be given by quoting the following portions of a translation of Sir Walter Henley's "Tretyce off Husbandry," a work which dates back to the thirteenth century* .—

"Buy and sell in season through the inspection of a true man or two who can witness the business, for often it happens that those who render accounts increase the purchases and diminish the sales Have an inspection of account, or cause it to be made by some one in whom you can trust, once a year, and (have a) final account at the end of the year. If there is any (money), let it be raised and taken from the hands of the servants If arrears appear in the final account, let them be speedily raised Look into your affairs often, and cause them to be reviewed, for those who serve you will thereby avoid the more to do wrong, and will take pains to do better In the first place he who renders accounts ought to swear that he will render a lawful

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

“ account and faithfully account for what he has received of
“ the goods of his lord, and that he will put nothing in this
“ roll save what he has to his knowledge spent lawfully, and to
“ his lord’s profit . . . And then, if he has rendered account
“ before, see how it compares, and if he is found in arrears
“ of money, corn, or stock, put the whole in stated money
“ valuation, and charge it at the commencement of his roll
“ At the end of the year, when all the accounts
“ shall have been rendered of the lands, the issues, and all
“ expenses of the manor, take to yourself all the rolls, and
“ by one or two of the most intimate and faithful men you
“ have, make very careful comparison with the rolls of the
“ accounts rendered, and of the rolls of the estimate of corn
“ and stock and according as they agree you shall see the
“ industry or negligence of your servants and bailiffs ”

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

2. Special attention is invited to the clause which says that the lord of the manor ought to command that the

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

3 Thus in commercial audit at the present day the main ^{Purpose of commercial audit} object is to present before the proprietor or proprietors of the business an accurate statement of the state of affairs together with a profit and loss account showing how this position has been arrived at. In the case of Companies the duty of an auditor is mainly in the interests of the shareholders, who are practically sleeping partners in the business. The directors are the active partners, and the auditor, on behalf of the sleeping partners—the shareholders—has to examine the accounts and the balance sheets prepared by the directors, and to report to the shareholders whether in his opinion those accounts are correct and fully and fairly disclose the position of affairs, or in what respects they fail to do so. In commercial audit, strictly speaking, it is never the duty of the auditor to prepare accounts, but to check the accounts which have been prepared: when auditing small concerns, however, he often finds them so badly prepared as to render it necessary for him to build up a very large portion of the fabric of the accounts from the initial records.

4 Before leaving this introduction to the subject attention may be drawn to the way in which the principles enunciated 700 years ago in this extract still apply, as will be

shown in this manual. Prompt payment of money into the treasury, the strict following up of arrears, the necessity for accounts accurately portraying the facts, the value of local inspection, periodical stock verification and the check of stock with accounts were fundamental principles then as they are to-day. Principles which have held good for so long a period must contain the essence of importance

CHAPTER 2.

The difference between Commercial and Indian Government audit.

5. On pages 3 to 5 of Dicksee's Auditing will be found a set of instructions to commercial auditors : some of those instructions are not applicable in Government audit, but it may be well to glance briefly at them and then to indicate the modifications necessary to make them applicable to Government audit in India, and the causes for such modifications

The
procedure in
commercial
audit.

“ (1) In commencing a new audit you should obtain a list of all the books kept, and of all persons authorised to receive or pay money and order goods ”

“ (2) In the case of a joint stock company, examine the articles and board minutes respecting the receipt and payment of money, and the drawing of cheques, acceptances, etc ”

“ (3) Ascertain and take note of the general system upon which the books are constructed ”

“ (4) Report if the accounts and vouchers have been submitted to the board of directors by an account committee or otherwise, and whether they have been systematically checked and certified ; and note any discrepancies ”

“ (5) Examine all the items in the cash book with the bank pass books and vouchers ”

“ (6) Note any unusual or extraordinary payments or receipts.”

“ (7) In regard to the payments for wages and petty cash, note any unusual items, and see that vouchers for all payments are kept and produced ”

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“(8) Report whether the cash book is regularly and punctually posted and balanced, and if the balance is checked ”

“(9) Report also if the entries in the fair cash book are in arrear on account of the current year, and, if so to what extent, and why ”

“(10) In all cases where branch establishments are included in one business you will be careful to examine into the mode of bringing the returns of work, accounts and expenses to the head office ”

“(11) Examine that the invoices are properly checked as to quantity and prices, obtain a declaration or otherwise satisfy yourself that every liability of the year is brought into account ”

“(12) Check the postings; and, although you are not held responsible for the details of classification, it is desirable you should make any suggestions required, and note any discrepancies, especially in relation to the division of expenditure on account of Capital and Profit and Loss Accounts respectively ”

“(13) In the accounts of stock-taking see that all stock sheets and returns are duly signed by the heads of departments, and that the same are correctly carried forward to the General Stock Account and ascertain and note whether goods finished or in progress are taken at cost price or otherwise; also report whether in large concerns an independent check clerk or valuer has verified the stock returns in regard to prices and quantities ”

“(14) In checking the Profit and Loss Account note whether the usual and proper deductions are made for wear and tear and depreciation, and for recouping of capital on works or premises held on short leases ”

“(15) Take care that in the Balance Sheet no additions are made to expenditure on Capital Account, except such as

“are duly authorised by the board of directors, and note the distinction between new works and mere replacements”

“(16) Ascertain the correctness of the cash balance, bills, and other securities in hand, and take note of every exceptional transaction.”

6 The procedure in commercial audit can be summarised briefly thus :

The first step is to understand the system of account followed

The second is to check as far as possible the accuracy of the original record, i.e., the cash book

The third is to see that all orders passed by the authorities have been duly complied with.

The fourth is to investigate unusual items.

The fifth is to check the compilation of the accounts from the original record.

The sixth is to prepare the balance sheet which will indicate accurately the position of affairs. This necessitates the careful investigation of stock accounts, of depreciation, wear and tear, and of the correct allocation of expenditure to the Capital account

7. Government accounting, and in consequence Government audit, are not concerned primarily with the preparation of a balance sheet, although there are certain branches of Government activities which are of a commercial nature. The form of Government accounts has to be determined by the fact that the main function of Government is to govern. The activities of a good Government in any country vary according to the needs of the country, and the first step is to determine the main branches of expenditure which the Government of any country has to incur. Once those branches have been determined the major heads of account naturally follow

Difference between a Government and a commercial firm necessitates differences in audit procedure.

The next point is for Government to decide as to the amount of expenditure which will be incurred in carrying out those activities and then to determine how to raise sufficient money to meet the expenditure. Money can be obtained either in the form of revenue or by loans, and Government has the final voice as to the manner in which the money required for expenditure in any one year is to be raised. Usually, however, money is not raised by loan by the Indian Government except to meet expenditure of a capital nature which shall yield an adequate return.

8. Thus the audit of Government accounts in India includes the check of the realisation of revenue against the demand according to the laws and regulations laid down by Government, and also the check of expenditure against the amounts set apart by Government each year for that expenditure and against the orders of Government permitting the expenditure to be incurred. Audit also has to see that no expenditure is taken to a capital head except in accordance with the orders which have been passed by Government with regard to such allocation.

9. There are other factors also which have influenced largely the system of audit adopted. Thus the audit of the transactions of the Government of India is entrusted entirely to Government officials. The audit of the receipt transactions is performed almost entirely by the Revenue authorities, but the audit of expenditure is performed, in the main, by separate departments—the Indian Finance Department and the Military Accounts Department—which are also responsible for the compilation of the accounts which they audit, and these duties constitute, almost entirely, the functions of these departments.

It must not be thought, however, that the whole of the audit of expenditure is done by the officers of these departments. India is so huge and Government activities so

various that it is impossible for the officers of these departments, working, as they do, almost entirely at head-quarters, to be as closely in touch with the facts to which the accounts refer as the officers of the department in which the expenditure is incurred. Thus the verification of the accuracy of the initial vouchers submitted for payment has to be left largely to the executive officers. Moreover, nearly all the bills are paid at district treasuries, the officers in charge of which are not members of the accounting departments. It is necessary that there should be a preliminary examination of the bills at the treasury before payment which in itself represents a small degree of audit. The exact nature of the work done by these agencies will be discussed later when we attempt to deal with details. For the present it is sufficient to remember that departmental officers take an important share in the system of audit.

Another point of difference between commercial and Government audit is that, whereas the former is nearly always periodical, the latter is continuous. This is due to the greater volume of work to be done and to the fact that a large part of it is concerned with personal claims which have to be finally adjusted with the utmost promptitude.

10 It is obvious that these differences in conditions must alter in details the system of audit, and it is interesting to compare with the main factors of commercial audit set out in paragraph 6 above, the main objects of Government audit as set out in paragraph 721 of the Civil Account Code and reproduced below :—

Differences in
procedure
between
commercial
and Indian
Government
audit

I As regards payments, to see—

- (a) that the expenditure is warranted by the orders special or general of the authority competent to sanction it, and generally that it has been provided for in the annual Estimates either *ab initio* or by reappropriation or by supplementary grants;

(b) that the expenditure is on objects recognised as necessary for the public service, and is not extravagant,*

(c) that payment has as a fact been made, and made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible

II As regards receipts, to see that all sums receivable are duly paid to the proper officer and brought to credit by him. The audit of receipts, however, is, as already stated, mainly carried out by departmental officers

11. This comparison is made in detail below —

(1) *Understanding the system of account employed by the firm whose accounts are being audited*—It is unnecessary to put this forward as a main object of Government audit because in India the accounts are compiled after a certain point by the agency which also audits them. Thus the system of account followed is indicated in the various departmental and account codes and is well known to the auditors

(2) *The check of the accuracy of the original record*—
1 (c) of the objects of Government audit may be held to correspond to this. It must be pointed out, however, that the cash book maintained in the treasuries, which is the basis of the Government accounts, is not submitted to the audit office. Consequently the original record which is checked in audit is not the treasury cash book, but the monthly accounts which are compiled by the treasury from the entries in the cash book. The accuracy of this compilation is ensured, first by its constituting a balanced account starting from an opening and ending with

a closing, balance which has to be verified with the cash in the treasury, which itself is verified once a month by the Collector or some officer acting for the Collector, and secondly by the fact that it is checked with the original sub-vouchers from which the entries in the cash book have been made

(3) *Check with the minutes or orders issued by the authorities*—The objects of Government audit I (a) and (b) correspond to this head.

In Government accounts these minutes or orders are represented by the authoritative codes, the Audit Resolution issued by the Government of India at the instance of the Secretary of State, and the resolutions and orders of the Government of India, Local Governments and other authorities. The volume of these orders is immense and this portion of audit looms so large that it tends to over-shadow other more important branches

(4) *Investigation of unusual items*—I (b) above provides for this class of audit

(5) *Check of the accounts compiled from the original record*—This is not mentioned in the list of objects of Government audit because, in the system of Government audit in India, the accounts are built up from the original record by the agency which audits that record. The classification, even of the items in the accounts, is made by the auditor, except in Madras where it is done in the treasuries. Where, however, the classification is made by the auditor, it is checked by a higher authority

The building up of the accounts is carried out through the classified abstract, the detailed books, the consolidated abstract, the journal and ledger, and ends in the account and audit offices in the preparation of the monthly and annual accounts submitted by each account office to the Comptroller

General. These subsequent stages of the compilations are not audited except by Deputy Auditors-General at their periodical inspections.

It is apparent, however, that the Government of India is in a very strong position as regards the accuracy and honesty of its accounts. It is able to say that the entire business of building up the accounts from the initial records of receipt and expenditure, which have to be prepared by the officers receiving the receipts and incurring the expenditure is handed over to departments whose sole function it is to prepare those accounts and thereafter to compile and audit them

(6) *The preparation of the Balance Sheet*—There is nothing in the Government account to compare with the balance sheet of a commercial firm. Its place may be said to be taken by the annual Budget Statements and by the Finance and Revenue Accounts of the Government of India which are compiled annually by the Comptroller General and submitted to the Government of India, to the Secretary of State and to the Houses of Parliament.

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

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

Here again due allowance has to be made for the differences in conditions between the Indian Government and a commercial firm, and the main difference is the performance of audit by the agency which prepares the accounts. Thus in Government audit there is little scope for detection of errors of principle (which means in the system of account adopted), because the audit officers have been responsible in the past, as account officers, for advising Government as to the form in which the accounts should be prepared.

How far fraud can be detected must be left over for consideration until the form in which the initial records are submitted to the Account Department has been described. It will then be shown that the part played by the audit office in the detection of fraud is mainly indirect.

Thus the main direct result of Indian Government audit is bound to be detection of technical errors, and one of the chief complaints against the Account Departments is that this is the sole result of their work.

It is apparent that this is not altogether a fair criticism, inasmuch as it overlooks the following facts —

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

It is most important that officers of the Department should prevent cause (iii) coming into operation, but critics ought not to forget, as they sometimes do, that the officers of the Department are not responsible for cause (ii), while the ultimate responsibility for cause (i) rests with Government even though they may have sought the advice of officers of the Accounts Departments.

CHAPTER 3

The audit of receipts

13 It has already been stated that a civil audit office* has little to do with the audit of receipts, and it may be desirable to deal with this subject briefly before passing on to the more important portion of the work of most Government audit offices, *viz.*, the audit of expenditure

It should be remembered, however, that the check of railway receipts forms an important part of the duty of a railway audit office. This check will have to be dealt with in some detail later.

14 All audit of receipts divides itself into the two functions of (a) seeing that all sums due are received or checked against demand, and (b) seeing that all sums received are brought to credit in the accounts

Demand.

15 A public "demand" arises in India in two ways. Either it is (i) a specific demand, fixed or fluctuating, for a contribution to the state exchequer, such as land revenue and excise—all taxation is of this nature—or (ii) it is a demand which arises in consequence of some outgoing of Government property (stock) or Government cash or Government service, in which case it is a claim for a "*quid pro quo*". Of this nature are demands set up by the sale of Government lands, stamps, forest produce, etc.; by Government cash advances and remittances; and by Government services, such as state railways, telegraphs, etc. The check against (i) the specific demand is always exercised in one way. the demand, if fixed, is entered in a register and the receipts or satisfactions of it are checked and entered against it: if fluctuating (as in the case of excise and customs duties, etc.), a Government staff is employed to watch the operations on which the demand depends and to collect the dues. In

* For explanation of this phrase is given in chapter 10 below

India this check is left entirely to the revenue collecting authorities audit shares in it only infinitesimally under such heads as tributes, interest, contributions, loans, fund subscriptions, etc. Where the demand arises in consequence of (ii) some outgoing of Government property (stock), audit can only operate if it receives returns of the property, such as the monthly returns of stamps and opium sent by the treasuries to the audit office. The check then consists in seeing that for every reduction of stock in the return there is an equivalent cash credit in the accounts.

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

Where the demand is occasioned by some outgoing of Government service, as in the case of state railway and telegraphs, the dues are collected by the Government staff working the service and their collection is generally checked by audit to some extent.

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

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

Credit in
accounts.

18 The second function of audit in regard to receipts is to see that all sums received are credited in the accounts. Here "received" means paid into a Government treasury, since all Government dues have to be so paid. The task then resolves itself into seeing that all sums of money paid into the Government treasuries are credited by the treasury staff in their accounts. The first or main safeguard to this end, that is, against error or fraud on the part of the treasury staff, is the printed receipts which have to be given for all payments into a treasury. If audit could collect all these receipts it would possess an almost perfect check over the credits in the treasury accounts. But this course is not feasible; the receipts are required by the payers as proof of their payments and to protect them against a second demand. In general they remain in the back-ground as a moral safeguard and only operate actively when some inquiry arises or the repayment of something in the nature of a deposit is required. To establish a more immediate connection between payments and credits, audit sends all the large civil revenue paying departments (such as Land Revenue, Stamps, Excise, etc.) monthly returns of treasury credits. These they compare with their own records, and differences brought to notice are settled. The great non-civil departments (Public Works, Irrigation, Railways, etc.), and the Forest Department send the audit office information as to their payments into the treasuries which it compares with the treasury credits; courts of law send audit returns of fines paid into the treasury, etc., etc. In this way a very large proportion of the credits in the treasury accounts are verified without much delay, and errors or frauds on the part of the revenue treasury staff are *pro tanto* prevented and corrected. This is a most important and valuable function of audit.*

*No attempt is made in this volume to discuss the details of work in the military account offices (see chapter 10 below). But almost all the remarks of a general nature to be found herein are equally applicable to such work.

CHAPTER 4

The Verification of the Original Record.

19. It is the duty of audit to certify that the accounts represent the actual state of affairs. It has already been explained how it is possible for audit to certify that, throughout the whole system, the accounts are accurately built up from the initial records. It is obvious, however, that, unless the initial record represents facts, the accuracy of the subsequent work performed on the basis of that record is of no avail. It is most important, then, to see how far audit is able to ascertain the accuracy of the initial record.

20 Every Government payment is made on a document ^{Vouchers.} called a voucher (or an acquittance) which gives the amount, nature, and period of the payment and all other details necessary for its complete identification, and contains a receipt of acknowledgment or acquittance by the person to whom the payment is due. This system, whereby the payer obtains documentary evidence from the payee in proof of the payments made by him, is universal in both public and commercial accounts. From the point of view of the payer the document is called a voucher or acquittance; from that of the payee a receipt. It is the duty of audit to enforce this system, that is, to see that for every payment there is a voucher in proper form, properly drawn up, arithmetically correct, and receipted by the proper person. This check is performed in the first instance at the treasuries, but the more important vouchers are also submitted to audit.

21 The Public Works or Railway Engineer counts ^{What they} coolies and records their number; he measures construction ^{represent.} work and enters the figure in a note-book: the Civil or Military Officer musters and enumerates the establishments,

corps, etc., he has under him, and prepares and signs a pay bill for them; he signs or countersigns a travelling allowance bill for himself and others founded on special or general knowledge that the journeys claimed have actually been performed; he submits a claim for contingencies or supplies after seeing personally (or through others) that the articles charged for are required for the public service and have actually been purchased and brought into public use: the Collector counts cash or stamps or opium in his treasury and thus proves his accounts for the month, etc., etc. At these points the accounts spring direct from the facts; at these points they obtain whatever vitality and reality they possess; their accordance with the facts, through all their subsequent changes of form, depends on their truth at these points. Generally speaking, in India, audit does not come in here at all; the executive and administrative disbursing officers alone verify the initial record with fact; the accordance of the initial record with fact is finally accepted by audit on their statement and responsibility.

Receipts and
certificates

22 What audit does in all these cases is to obtain receipts from the payees, certificates from the disbursing officers and the countersignature of controlling officers. Thus for construction it obtains receipts from the contractors and others to whom large payments are made (no receipts from individual labourers), certificates of measurement of work of counting of labourers, and of completion of work from the disbursing officers. For contingencies, receipts are obtained, for the larger payments, from the private payees, and certificates from the disbursing officers that the payments were necessary for the public service and have actually been made: also, in some cases, the disbursers' certificates are reinforced by countersignature of the bills by superior officers. For salaries, receipts are obtained from gazetted officers, and for non-gazetted officers certificates (from heads of offices) that they have actually been present

on duty, and that previous salaries have been paid to them and their receipts recorded. For leave and pension payments, receipts only are necessary : for travelling allowances, receipts (not from non-gazetted officers), technical certificates and countersignature, etc., etc

23 The contact of the audit office with the facts is, therefore, through receipts and certificates, reinforced in some cases by countersignature. It has no opportunity of seeing the facts with its own eyes and comparing the bills with them. The question therefore arises how far receipts and certificates guarantee the facts. It may be said at once that while they are much better than nothing, they cannot guarantee the facts with absolute accuracy.

24 It must be admitted, however, that it would be impossible for audit to verify the initial facts unless a representative of that Department were present at every act vouched for by the certificates referred to in paragraph 22 above. Those acts include the payment of the salaries of, and the journeys performed by, every Government servant, the measurement of all work done by and for the Public Works Department and the verification of Government stores of all description, using the word "stores" in its widest sense to include coin, stamps and other valuables. It is obvious, then, that the Audit Department could not verify the initial facts without a very much larger establishment and the extra expenditure thereby involved would probably be very disproportionate to the advantages obtained.

Possibility
of verification
by
audit office.

25 The recognition of this fact has led to the check exercised by Audit being supplemented to a large extent by executive check. Work done and paid for in the Public Works Department is inspected by superior officers of the Public Works Department, travelling allowance bills are checked by countersigning authorities who are in a position to have knowledge of journeys performed, bills for important

Part played
by counter-
signing and
controlling
Officers.

contingent expenditure are countersigned by controlling officers who must know better than any audit officer the need for such expenditure and the proper rates to pay, and who can satisfy themselves at inspection that the materials billed for have been purchased

26. Because this work is not done in the Finance Department there is a tendency in the Department to overlook its importance and to consider that it would be better done if it were undertaken by the officers of the Department. But although the latter have the technical training in checking accounts, executive officers have an intimate knowledge of the details of the work done and are in a better position to verify the facts and to check the economy of the expenditure passed by them than outside officials would be. But it is the duty of audit officers to call attention to any serious failure in check on the part of executive officers which may come to their notice

Detection
of fraud

27 It has already been pointed out that commercial audit regards the detection of fraud as one of its main duties. But such detection is almost impossible except at the verification of the initial record, so that detection in the audit office in India is very rare. And yet it must not be hastily assumed that this indicates a defect in the system of Government audit in India. The detection of fraud by an executive officer is frequently due to the letters issued by the audit office plainly indicating that something is wrong. Thus in one case the audit officer pointed out that in a certain office there were frequent violations of the important rule that money should not be drawn in advance of requirements. This led the head of the office to examine his account carefully with the result that he detected frauds amounting to over Rs 3,000. Numerous similar cases can also be quoted showing that action taken by the audit office may lead to the detection of fraud.

28 It is essential to investigate frauds carefully because valuable lessons can almost always be learnt from them. There is a tendency to suggest the framing of new rules to prevent each particular fraud. This tendency should be resisted : there are quite enough rules already and, if the preventive machinery is made too elaborate, the chances are that it will not work efficiently. The main point in every fraud investigation must be to ascertain whether the exercise of ordinary common sense, such as one ought to expect from every Government officer, and the application of existing rules, would not have rendered the fraud impossible. My own experience is that this would have been the case in nearly all the frauds which have come to my knowledge. I urge the importance of this line of investigation because fraud is prevented far more by punishing the defalcator, and the officer whose negligence rendered the fraud possible, than by adding to the enormous number of rules already in existence.

Value of investigation of frauds.

But fraud investigation *may* sometimes indicate a defective system of check and then the revision of the system is essential.

29 The main monthly records submitted by each treasury are the cash account and the lists of payment. The cash account shows lump receipts under the important heads and a detailed list of receipts which cannot find a proper place under the main heads. Many detailed schedules are also submitted.

The initial record submitted to the audit office.

The important feature of the cash account is the abstract which starts with the opening balance, shows the total receipts and payments and thus works up to the closing balance. The actual cash balance of the treasury and sub-treasuries are also shown in detail so that the account and the cash balance can be verified. Two lists of payments are submitted each month and are supported by schedules of the

more important classes of payments The lists of payments show the vouchers required, the vouchers forwarded, and those still to be submitted.

30. In checking this initial record the more important points to which the auditor devotes his attention are :—

- (1) That payment has been so acknowledged and recorded that a second claim against Government on the same account is impossible, and that, so far as the auditor can judge, it has been made to the proper person
- (2) That the vouchers are in the prescribed form, and that they are duly receipted by the payees in original.
- (3) That the details of the various lists work up to the totals
- (4) That they bear the treasury order for payment signed by the treasury officer.
- (5) That no payment is made on a voucher or order signed by a clerk instead of the head of an office, or on a voucher or order signed with a stamp
- (6) That if a voucher be paid by transfer, it is stamped as having been so paid, that the head to which the amount is credited is noted on it, and that the credit is traced in the cash account when possible.

CHAPTER 5

Audit against sanction

✓ 31 The next main feature of audit set out in Chapter 2 paragraph 6 above is the check against the orders of the authorities. In India these orders are of two forms and the check therefore should be sub-divided under the two classes :

- (1) Against sanction.
- (2) Against appropriation

This chapter deals with the former

✓ 32. Audit has to see that each item of expenditure has been sanctioned by the authority having power to sanction such expenditure. These powers are laid down in the various audit codes such as the Civil Service Regulations, Civil Account Codes, Public Works Department Codes, State Railway Codes, Forest Department Code, Post and Telegraph Code, Currency Code, Army Regulations, etc.

Authority to
sanction
expenditure.

The starting point of any description of audit against sanction must be section 41 of the Government of India Act of 1858 (21 and 22 Vic cap. 106), which orders—

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

By statute
vested in
Secretary of
State in
Council

✗ 33 Up to 1889 the audit officers did not, as a rule, challenge expenditure on the ground of its requiring the sanction of the Secretary of State. In that year, at the instance of the Secretary of State, they were directed to

Growth of
duty imposed
on audit
officers of
requiring
his sanction

require evidence of his authority for certain specified classes of expenditure, appointments drawing over Rs 3,000 a year and the like, and the first Audit Resolution was prepared.

As regards the form of the Resolution the Secretary of State admitted that, in the "numerous services in which expenditure must be incurred for the daily requirements of the administration," it would be impossible to comply literally with the terms of the Act. Nevertheless, he thought that his formal sanction should be given to such expenditure at some stage.

Extent of
delegation to
Government
of India.

— 34 The Government of India explained to the Secretary of State, however, that he was suggesting a reversal of the accepted presumption in accordance with which the business of India had always been carried on. The presumption, they wrote "has been that the Secretary of State has delegated the authority entrusted to him over expenditure in India to the Government of India, except in cases where he has, by special order or by established practice, reserved to himself the exercise of that authority; all the proceedings of the Government of India under this delegated authority are, of course, subject to the general control of the Secretary of State in Council; and cases of an unusual nature involving considerable expenditure, in regard to which no precedents exist, are also referred for the previous sanction of the Secretary of State in Council. In other words, the statutory control has been understood to be general, except in the cases where the Secretary of State has decided that it must be special."

It was this principle, they urged, which underlay the standing instructions on the subject; and they asked the Secretary of State to maintain it, and to allow the presumption on which it was based to remain unaltered.

— 35. The Secretary of State accepted this view, and decided that the existing system should continue, in order

that he might learn by experience whether it secured him a sufficiency of control. This was in 1889, several modifications were subsequently made in the rules of 1889, and in 1893 they were completely revised and republished, the Secretary of State's concurrence being obtained on each occasion.

✓36 In 1907, however, Mr Morley as Secretary of State for India drew the attention of the Government of India to the rules by which the expenditure of the revenues of India was then regulated. He referred to the statutory provisions and to the Audit Resolutions under the provisions of which the sanction of the Government of India is declared to be sufficient authority for expenditure in India except in specified cases in which it is stated that the approval of the Secretary of State in Council is required. He continued—

*History of
the prepara-
tion of the
present Audit
Resolution*

“When these Resolutions were sanctioned, it was understood that this was done as a provisional measure in order that the Secretary of State in Council might learn by experience whether the orders given are sufficient to secure to him the power of efficient control which it was intended by Parliament that he should exercise.”

“Experience has demonstrated the necessity of revising the resolution so as to provide explicitly that certain classes of expenditure, which are not now mentioned in it, shall require the previous sanction of the Secretary of State in Council.”

He then enumerated the classes and continued “your suggestions should be embodied in a draft resolution (to take the place of the one dated 4th March 1893) which you should prepare and submit for my approval as soon as possible. As the Resolution is intended to serve not merely as a set of rules for the guidance of audit officers but also as an authoritative statement for other purposes of the limits within which expenditure may be incurred, and grants made by the Government of India without the

“specific sanction of the Secretary of State in Council it
 “should recite the statutory provision regarding the control
 “of Indian expenditure* . . . : it should set forth
 “that proposals for expenditure which are not specified as
 “requiring the Secretary of State’s sanction are invariably to
 “be submitted to him when they raise any important
 “question of administrative policy, and when the expendi-
 “ture contemplated is of an unusual nature, or is likely to
 “involve further expenditure at a latter date ”

37 When submitting the draft resolution thus called for, the Government of India raised two main points. They said :
 “We do not read in your present despatch any intention of
 “altering the position accepted by Lord Cross in his des-
 “patch No 250-Financial, dated the 7th November 1889,
 “that the authority vested in the Secretary of State has been
 “delegated to the Government of India except in cases
 “where he has by special order or by established practice
 “reserved to himself the exercise of that authority We
 “have, therefore, defined this position in paragraph 2 of the
 “draft resolution In paragraph 3 of the draft we make it
 “clear that all measures which raise any important question
 “of administrative or financial policy, or involve considerable
 “expenditure of an unusual nature, must be submitted for
 “the orders of the Secretary of State This general limitation
 “on our Financial powers has been embodied in the prelim-
 “inary portion of the resolution, dealing with the powers
 “which govern the discretion of the administrative, rather
 “than in that part which describes the duty of the audit
 “officer This arrangement follows what is virtually the
 “existing practice ”

✓ 38. The Secretary of State accepted the views of the Government of India except in respect of expenditure of an unusual nature which he considered should come within

* i.e., that mentioned in paragraph 32 above

the purview of audit Since then there have been numerous revisions of what is called the Audit Resolution and the existing edition issued in March 1913

In each edition the scope of the Resolution has been enlarged and the rules contained in it have been brought more closely into accord with the original orders of the Secretary of State of which the Resolution is a convenient compendium

39. Before discussing the details of this resolution it is desirable to complete the review of the system of powers of sanction

Delegation to local Governments and subordinate authorities.

It is unnecessary to describe in detail the history of the growth of the powers granted to Local Governments It is sufficient to note that an important resolution issued in 1897 defining those powers Since then, as a result largely of the work of the Decentralisation Commission, their powers have been increased considerably and a new draft resolution is now under preparation for submission to the Secretary of State for sanction.

40 Once the Secretary of State had emphasised the position that the powers exercised by the Government of India were merely delegated by him, it became clear that the Government of India, or the Local Governments, could not delegate to subordinate authorities powers entrusted to themselves without the sanction of the Secretary of State In fact the Secretary of State took up this position in 1911 and called for a complete record of all delegations that he might regularise the situation The Government of India are now engaged in complying with this order, and, when submitting their reply, they will probably take the opportunity of obtaining some general instructions as to the power of re-delegation

41. Article 283, Civil Account Code, purports to contain a summary of the powers of Local Governments It is necessary to state, however, that it does not accord with

existing facts, inasmuch as it has not been modified to show the large increase of powers granted under an important Government of India Resolution which issued in July 1912 with the sanction of the Secretary of State. The revision of the Code article has been held over pending the issue of the revised resolution, referred to in paragraph 39 above, which will set forth the complete financial powers of Local Governments. This revised resolution will be a document of the utmost importance to audit officers who will have to be thoroughly conversant with all its details.

42. The Audit Resolution cannot be passed over without detailed examination for it sets forth the financial powers which have been reserved for himself by the Secretary of State. In view of its importance a copy is appended to this chapter.

Its form is determined by the basic principle indicated in paragraph 37 above, that the Government of India have full power of sanction save in those cases in which the Secretary of State has reserved that right to himself. This principle is set forth in clause I.

The detailed lists of cases in which the sanction of the Secretary of State is necessary are contained in clauses III, VI, VII and VIII. Clause VI deals specially in seven paragraphs with public works and railway expenditure, clause VII in five paragraphs with military expenditure, and clause III in twenty paragraphs with expenditure of a more general nature. Clause VIII deals with the power to sanction loans.

It is evident, however, that under these rules many matters, in respect of which power has been granted to the Government of India in one of the authorised codes, apparently require the sanction of the Secretary of State. The validity of these old delegations is confirmed in clauses IV and V, which allow Audit officers to assume that orders

contained in authorised Codes, or passed before 1889 and communicated to Audit officers on the authority of the Government of India only, have been sanctioned by the Secretary of State.

A Resolution of this nature requires to be based on a set of definitions. One very important definition, *viz.*, that of remuneration, is contained in clause II. It may be assumed, I think, that the definitions contained in the authorised Codes, apply to this Resolution also.

Finally clause IX intimates that, even if any objection under these rules be overruled, it must be reported to the Secretary of State for information.

43 Clauses III, VI, VII and IX require further analysis.

III—deals with the powers of the Government of India—

- (a) As regards its own officers to create permanent and temporary appointments and to sanction the remuneration of such appointments, to grant honoraria, to increase the contract grants of His Excellency the Viceroy or the head of a province, to incur expenditure on motor cars, or to make any addition to the list of saloon carriages reserved for the use of high officials.
- (b) As regards Local Governments : to revise their provincial settlements or to make grants to them.
- (c) As regards outside persons ; to grant them pensions, to incur non-recurring expenditure on behalf of political pensioners, on state ceremonies, or on the entertainment of visitors.
- (d) As regards outside bodies to make grants to religious or charitable institutions, to incur

expenditure on, or make grants towards, Churches, or to incur expenditure for the benefit of Native States.

Finally there is the general rule that the sanction of the Secretary of State in Council is required—

- (1) To any expenditure* (except in cases in which authority is granted to the Government of India by this Resolution) which is—
 - (a) of an unusual nature ; or
 - (b) devoted to objects outside the ordinary work of administration ; or
 - (c) likely to involve at a later date expenditure beyond the powers of sanction of the Government of India

Clause VI deals with the power of the Government of India to incur Capital and Revenue expenditure on public works, to sanction outlay in excess of original estimates the construction of a railway on branch line terms, and expenditure on non-pensionable establishments

Clause VII describes the power of the Government of India to sanction military works, outlay in excess of the original estimates for such works, or new measures involving expenditure chargeable to the heads Army, Marine, Military Works or Special Defences

44 The rule contained in clause IX seems to be defective. The Government of India never had the power definitely to overrule an audit officer. All they could do, and still can do, as Clause IX at present stands, is to direct that certain expenditure, which has been objected to as beyond their powers, shall continue, pending reference to the Secretary of State. Moreover, Clause IX, which will

* The Secretary of State has just sanctioned the relaxation of the rules contained in (1) (a) and (1) (b) in the case of expenditure not exceeding Rs. 500.

presently come under revision, does not refer to the existing arrangement under which the Government of India can refer any objection raised by an audit officer to the Comptroller and Auditor General for his opinion and the latter is empowered to overrule the objection

Again, this rule requires revision in consequence of recent orders of the Secretary of State granting certain discretionary powers to the Auditor General and merely requiring for the present an annual return of the cases dealt with by him in the exercise of such powers

These powers are defined as follows :—

- (1) In dealing with cases where expenditure has been incurred which requires the sanction of the Secretary of State under the Audit Resolution, the Auditor General shall be at liberty, if the matter comes to him in audit, to allow such expenditure to pass without objection on the following conditions :—
 - (a) That the failure to obtain the Secretary of State's sanction involved a breach of the letter rather than of the spirit of the Audit Resolution
 - (b) That the expenditure was small in itself or in comparison with the spending powers of the Government of India in directions of a similar character
- (2) If an Accountant-General has placed expenditure under objection on the ground that it requires the sanction of the Secretary of State, and the matter is referred to the Auditor General, the latter shall be at liberty, if he thinks that the case falls under the conditions above indicated, to withdraw the objection or to remit any disallowance raised in connection therewith

Financial
powers of
Local
Governments

45. The financial powers of Local Governments fall mainly under five heads, *viz*, their powers—

- (i) under the Provincial settlements made with them ;
- (ii) in respect of expenditure falling wholly or partly on Provincial revenues ;
- (iii) in respect of expenditure falling on Imperial revenues ;
- (iv) under budget rules ;
- (v) to make loans.

There are also important general limitations on their exercise of such powers

The nature of
a Provincial
settlement

46 The only class of powers which needs detailed consideration at present is that conferred under the terms of the Provincial settlement

The theory of a settlement is that the Government of India decide which major or minor heads of the accounts are to be treated as Imperial or Provincial or divided, and, for divided heads, fix the proportion which is Provincial. Each Local Government is credited with all the revenues obtained within the province which, under the classification, are Provincial, and in general each province also receives an assignment from the Government of India. The total amount so placed at the disposal of each Provincial Government may be spent by that Government subject to the rules which define its powers of sanction to expenditure. Formerly these Provincial settlements were for a term of five years, but now in every province the settlement is in ordinary circumstances permanent. Provincial Governments now are expected to maintain prescribed minimum balances, if that balance be drawn on, any help from the Government of India is treated as a loan bearing interest and repayable. Provincial Governments may not budget for a deficit in any year unless they satisfy the Government of India that the

increase of expenditure or diminution of receipts is due to an exceptional and non-recurring cause.

47. Most of the limitations on the financial powers of Provincial Governments correspond to the similar provisions as regards the Government of India contained in the Audit Resolution. In some cases Local Governments are given the same powers as, and in others smaller powers than, the Government of India. It is apparent, however, that a Local Government is in a different position from the Government of India inasmuch as it ought not to take any action which may embarrass the Government of India or any other Provincial Government. The special restrictions imposed upon Local Governments in order to meet this difficulty are to be found in Article 283, Civil Account Code. Thus without the sanction of the Government of India no additional taxation may be imposed, no new general service of duty may be undertaken, the rates of duty on spirits and drugs (in any case in which the alteration is likely to affect the excise arrangements of a neighbouring province without the concurrence of the Government of that province) or the rates of discount on the retail of stamps and court fees labels are not to be altered; no item hitherto credited to general revenue can be alienated to form an asset of any local or special fund, and no money may be removed from public treasury for investment or deposit elsewhere; no alteration may be made in the form of public accounts; no line or through communication may be abandoned or allowed to fall out of repair. To some of these rules there are of course minor exceptions which it is unnecessary to explain in such a manual as this.

48. It is important to note that, subject to any special rules contained in this Resolution or in various codes, Provincial Governments exercise in respect of revenue and expenditure under Provincial or divided heads the same financial powers of sanction and control as are exercised by the

Government of India over the revenues of India or the expenditure therefrom.

Their powers, however, with regard to Imperial expenditure are very limited.

Audit
against
estimates.

49 A very important form of sanction against which audit has to be conducted is an estimate This is dealt with in detail in Chapter 16 below

The Audit Resolution of 15th March 1913

The Secretary of State having issued orders which necessitate the further modification of the rules published in the resolution of this department No 465-Ex, dated the 26th January 1911, as amended by resolutions No. 6969-E.A, dated the 17th November 1911, and No. 2337-F, dated the 15th April 1912, the Government of India are pleased to issue the following revised rules in supersession of the rules prescribed in those resolutions

1 An audit officer, before admitting in audit any charge against the general revenues which requires the sanction of the Secretary of State in Council, must satisfy himself that that sanction has been accorded either by general or by special order of the Secretary of State in Council The cases in which the audit officer is to regard that sanction as necessary, are stated in the following rules: For the admission of any charges which are not stated in these rules to require the sanction of the Secretary of State in Council, the authority of the Government of India, or, in classes of cases in which the Government of India have delegated their powers to local Governments, of the Local Government, should be regarded as sufficient.

Note —The expression "general revenues" as used in this Resolution means Imperial and Provincial revenues as well as the revenues of local funds administered by Government

II. In these rules the word "remuneration" includes, besides monthly substantive pay or salary, all payments to

officers from general revenues whether in the nature of fixed allowances, subject to the exceptions below, or of fees, rewards (except language rewards, other than those which take the form of monthly allowances) or recurring honoraria. It does not include the pension of an officer who is re-employed, or local allowances granted on account of the unhealthiness or expensiveness of particular localities (which will in future be known as "compensatory local allowances"), exchange compensation allowance, travelling or conveyance allowances, house-rent allowances or grant of free quarters, allowances to civil surgeons for charge of railway employes, office allowances, hill allowances governed by authorised hill allowance codes, and non-recurring honoraria. Subject to the limitations contained in these rules, and to any specific orders of the Secretary of State bearing on particular matters, the Government of India have full power to sanction the grant of allowances which are not included in the definition of remuneration. Provided that the sanction of the Secretary of State in Council is required to—

- (a) the grant of exchange compensation allowance in any case in which it is not now admissible, and
- (b) any modification of the broad principles on which the rules relating to the Calcutta, Bombay and Rangoon house allowance schemes are based, including the rates and the general conditions of eligibility laid down in them

III. The sanction of the Secretary of State in Council is required—

- (1) To any expenditure (except in cases in which authority is granted to the Government of India by this resolution) which is—
 - (a) of an unusual nature; or
 - (b) devoted to objects outside the ordinary work of administration; or

- (c) likely to involve at a later date expenditure beyond the powers of sanction of the Government of India

Note 1—The Government of India are, however, empowered to sanction, up to a limit of Rs 500 in each case, petty expenditure to which there is no objection except that it comes under (a) or (b) of this rule

Note 2—The purchase of a railway line by Government is a transaction involving expenditure of an unusual nature, and accordingly requires the sanction of the Secretary of State in Council

- (2) To the creation of any new permanent appointment, which would ordinarily be held by a gazetted civil officer recruited in England, and to the raising of the pay of such an appointment already in existence or of such an officer

Note—The word “pay” in this clause has the meaning assigned to it in Chapter II of the Civil Service Regulations. The Government of India are empowered to sanction local or other allowances for an appointment or an officer of the above class, provided that the remuneration of the appointment or officer is not thereby raised to an amount in excess of Rs 750 a month

- (3) (a) To the creation of a permanent appointment, not of the class specified in III (2), of which the remuneration exceeds Rs. 800 a month
(b) To the raising of the remuneration of an officer, or of a sanctioned permanent appointment, not of the class specified in III (2), to an amount in excess of Rs 800 a month, or to the increase of a remuneration which is already in excess of that amount.

Note 1—In the case of incremental pay, the test for the application of this rule is the maximum pay attainable. The grant of increased remuneration to an officer on incremental or a time scale of pay, the maximum of which rises to or exceeds Rs 800 a month, on the condition that it should be continued only so long as it does not cause his total remuneration to exceed Rs 800 a month, does not accordingly require the sanction of the Secretary of State

Note 2 —Where the remuneration of an officer cannot equitably be fixed at a monthly rate because it would in consequence of its source be liable to fluctuation from month to month, the sanction of the Secretary of State is required to the grant of a remuneration in excess of Rs 9,000 a year, instead of Rs. 800 a month

(4) (a) To the placing of an officer on duty outside India, except as provided for in Article 84-A, and Note 2 to Article 85, Civil Service Regulations.

(b) To the temporary appointment or deputation of an officer in India on a remuneration (inclusive of deputation allowance, if any) exceeding Rs 50,000 a year (Rs 4,166 $\frac{2}{3}$ a month), unless such officer has a lien on an appointment carrying a remuneration of equal or higher value fixed by statute

(c) To a temporary appointment or the deputation of an officer in India on a remuneration (inclusive of deputation allowance, if any) exceeding Rs 800, but not exceeding Rs 4,166 $\frac{2}{3}$ a month, when such appointment or deputation is expected to last, or does last, for more than two years But in this case previous sanction is not required

Note 1 —The sanction of the Secretary of State is not required to the creation of (a) temporary appointments or deputations connected with plague, and (b) temporary appointments for settlement work, subject, as regards remuneration, to the rules contained in Appendix 4-A of the Civil Service Regulations

Note 2 —The period for which a temporary appointment or deputation has been sanctioned by the Secretary of State may, if necessary, be extended without further reference to that authority, provided that such extension shall not exceed one month

Note 3 —When the remuneration of an officer appointed to a temporary appointment or placed on deputation for a period of more than two years is increased beyond the limit of Rs 800 a month laid down in this clause, by reason only of an increase of the pay or acting allowance of the officer holding it, the specific sanction of the Secretary of State will not be required to the continuance of the temporary appointment or deputation with increased remuneration until the expiry of the period originally sanctioned

- (5) To the approval to the grant to an officer from general revenues, or from a local fund, or from the revenues of a Native State, of an honorarium exceeding Rs. 1,000, for work which he is required to perform, either within or outside the course of his ordinary duties, when it is of such exceptional merit or of such an arduous or peculiar nature as to justify a special reward.

Note 1—This rule applies to single payments only ; a recurring honorarium or reward or fee requires the same sanction as an increase of remuneration. The fee paid to an educational officer selected as an examiner on purely personal grounds, irrespective of his position under Government, though these grounds may bring about his appointment in successive years, is not a recurring fee within the meaning of this rule.

Note 2—Pensioned officers of Government rank as private persons in respect of the receipt of honoraria from general revenues, from local funds, or from the revenues of a Native State.

Note 3—The Government of India can sanction the payment of bonuses to members of subordinate establishments of the Public Works Department, whether permanent or temporary, who are engaged on important works of construction, provided that the bonuses and remuneration of any particular employe do not together exceed Rs 9,600 a year.

- (6) To revisions of permanent establishments which involve additional expenditure of more than Rs 50,000 a year. In the case of establishments, such as process-serving establishment, the scale and remuneration of which are determined by Courts of Law under rules having the force of law, the sanction of the Secretary of State in Council is not required under this clause unless the net extra expenditure involved, after allowing for the receipt of fees, exceeds Rs. 50,000 a year.

"Note 1.—For the purposes of this rule the cost of any particular revision is to be determined with reference to the definition of remuneration in Rule II."

Note 2—For the purpose of determining the above limit of Rs. 50,000 a year the cost of any temporary establishment which the new scheme will replace should not be taken as a set off.

- (7) To all orders involving expenditure for which the Civil Service Regulations or other authorised code specially declare that the sanction of the Secretary of State in Council is necessary
- (8) To the grant of any pension or gratuity that is not admissible under the provisions of the Civil Service Regulations, the India Army Regulations, or any other authorised code, or under any general authority conferred on the Government of India by a despatch of the Secretary of State in Council, such as his despatches sanctioning the grant, subject to specified conditions and limits, of pensions in respect of services rendered during the Mutiny, compassionate gratuities to the families of Government servants left in indigent circumstances, pensions or gratuities to non-officials injured (or to the families of non-officials killed) during or in consequence of service rendered to the State, political pensions or gratuities to non-officials and pensions or gratuities to non-officials who have rendered exceptional service to the Government

Note 1—The effect of the various orders quoted in this rule so far as they relate to pensions and gratuities of non-officials and their families, is that the Government of India can sanction, without reference to the Secretary of State, the grant of reduced political life pensions to the heirs or other representatives of existing pensioners in accordance with the practice that has hitherto been followed; but that their power to sanction (1) new political life pensions or gratuities to non-officials or increases to existing political life pensions, (2) pensions or gratuities to non-officials who are injured (or to the families of non-officials who are killed) during or in consequence of service rendered to the State, and (3) other pensions or gratuities to non-officials who have rendered

exceptional service to the Government, are limited to a pension not exceeding Rs 1,000 a year, or a gratuity not exceeding Rs 3,000 in any case.

Note 2—The grant of a pension and a gratuity to the same individual requires the sanction of the Secretary of State

- (9) To the grant to non-officials, on political considerations, of (a) land either free of revenue or on favourable terms, or (b) of assignments of land revenue, if the value of the land or land revenue exceeds Rs 1,000 a year Grant of either kind on other than political considerations are subject to the statutory rules published by the Government of India under the authority of the Secretary of State in their Finance and Commerce Department Resolution of the 20th February 1894, No. 933, and Financial Department Resolution of the 31st October 1910, No. 5751-Ex.
- (9A) To the grant to a civil officer, in addition to his ordinary service pension, of—
- (a) land, except where the grant is made under the ordinary revenue rules of the Province concerned, and involves no special concession in money or its equivalent beyond the fact that the grantee has received the grant in preference to others ; or
- (b) an assignment of land revenue when the total amount exceeds Rs 600 a year, or the assignment, if within that amount, is not limited to three lives and reduced by one-half on each succession
- (10) To any expenditure of a non-recurring type on behalf of political pensioners, such as grants towards the funeral expenses of deceased pensioners, the provision of marriage dowries for daughters,

allowances to meet the expense of proceeding under orders of competent authority from one locality to another and expenditure on other than ordinary repairs (as for example the installation of electric lights and fans) in connection with the residences which pensioners are provided with in certain cases at the cost of the State, if the amount, in any case, exceeds Rs 1,000

- (11) To any expenditure on the erection or alteration of a church, or grant-in-aid towards the erection or alteration of a church not wholly constructed out of public funds, in excess of the amount admissible under the rules in the Public Works Department Code
- (12) To any cash grant to a charitable or religious institution (not being a grant for a church under the Public Works Department Code), which exceeds Rs 10,000 a year if recurring or Rs. 50,000 if non-recurring ; and to any grant to a charitable or religious institution outside India

Note—Institutions designed for medical relief are included in the category of charitable institutions

- (13) To expenditure on State ceremonies and assemblies and on the entertainment, at the public charge, of distinguished visitors to India, when the outlay is estimated to exceed Rs 1,00,000
- (14) To grants to Local Governments having regular Provincial settlements, other than the following :—
 - (i) non-recurring grants made—
 - (a) to restore Provincial balances to the prescribed minimum when they have been depleted owing to calamities such as famine or plague ;
 - (b) to enable Provincial Governments to restore the normal scale of expenditure on civil works or other services, when it has been specially reduced

in consequence of calamities such as famine or plague ;

- (c) towards defraying the cost of schemes (costing not more than 10 lakhs excluding, or 12½ lakhs including, provision for establishment, tools, and plant), when the expenditure would ordinarily be met by local bodies, though passed *pro forma* through the Provincial accounts ; and
- (d) for Provincial objects of secondary importance, of which the cost is within the limits mentioned in (c) ;
- (ii) compensatory assignments, whether recurring or non-recurring, made in connection with—
 - (e) erroneous credits of Provincial revenue in the Imperial section of the accounts ;
 - (f) expenditure undertaken from Provincial revenues on behalf of the Imperial Government ; and
 - (g) transfer of liabilities arising from changes, in the method of classification of receipts or charges, or from other causes
- (iii) (a) recurring, and (b) non-recurring assignments of amounts not exceeding Rs 15,000 and Rs 50,000, respectively, in each case which may arise.
- (15) To expenditure for the direct benefit of Native States which is estimated to exceed Rs. 10,000 a year on any one project, or Rs. 50,000 if non-recurring
- (16) To expenditure on providing any addition to the list of "the special saloon carriages reserved for the use of high officials," as approved in paragraph 3 of the despatch from the Secretary of State, No 67 (Railway), dated 29th September 1911 The Government of India may sanction such expenditure as may from time to time be required (a) to complete and keep up to date one standard gauge

and one metre gauge train for the use of His Excellency the Viceroy, and (b) to maintain and, when necessary, to replace any of the other carriages referred to in this rule

- (17) To expenditure in connection with the staff, household and contract allowance of His Excellency the Viceroy in excess of the limits laid down in the despatch from the Secretary of State, No 55-Finl, dated 17th May 1912. The Government of India have the power to make a non-recurring addition to the contract allowance, of an amount not exceeding Rs. 20,000 in any year when occasions such as the visit of a member of the Royal Family to India or the occurrence of a State assemblage of unusual importance throw exceptional expenditure upon the contract allowance; provided that such grants shall be reported to the Secretary of State when made
- (18) To the increase of the contract grant of the head of a province
- (19) To the expenditure of public money: (a) on the purchase of a motor car for the use of an official, or (b) on the maintenance of such a motor car otherwise than from the contract grant of the head of the province, except as provided in the rules approved in the despatch from the Secretary of State, No. 67 (Financial), dated 7th June 1912.

Note --The sanction of the Secretary of State is not required to any expenditure by the head of a province from his contract-grant on the hire of motor cars for use in the discharge of his official ceremonial duties.

- (20) To the revision in any important respect of any existing provincial or *quasi*-provincial settlement.

IV In applying these rules, audit officers may assume that all the provisions of the Civil Service Regulations, the India Army Regulations, the Public Works Depart-

ment Code, the State Railway Codes, the Forest Code, and any other authorised Code, have received the sanction of the Secretary of State in Council in all cases in which that sanction is necessary. They may, therefore, admit, without requiring the sanction of the Secretary of State in Council, any pensions, acting allowances, or other allowances which are admissible under the rules of those codes. Any allowances which are in excess of those admissible under those codes will require the sanction of the Secretary of State in Council if coming within the terms of Rule III above.

V. Audit officers may also assume that any general sanctions issued before 1889 (such, for example, as the orders granting personal allowances to military officers in the police in some provinces, and the rules under which rewards are granted to officers for passing language examinations) had duly received the sanction of the Secretary of State in Council when that is necessary, although under the procedure in force up to that year the orders were communicated to audit officers on the authority of the Government of India only.

VI. The following rules are special for railways and other public works, excluding military works to which rule VII below applies:—

- (1) No outlay shall ordinarily be charged to loan funds without the sanction of the Secretary of State in Council; but this rule shall not apply to—
 - (a) irrigation projects of which the estimated cost does not exceed Rs 10,00,000 excluding provision for establishment, tools and plant, or Rs 12,50,000 inclusive of those charges;
 - (b) capital expenditure on railway lines under construction—
 - (i) which are included in a railway programme sanctioned by the Secretary of State in Council. In such cases, the sanction of the programme by the

Secretary of State in Council will be a sufficient sanction for such works included in it as require his sanction, which satisfy the following conditions.—

- (a) The estimated cost of each line does not exceed Rs $2\frac{1}{2}$ lakhs,
- (b) In the case of an extension of a line which was originally sanctioned by the Government of India as being estimated not to exceed Rs $12\frac{1}{2}$ lakhs the cost of the original line and the extension are together within the $12\frac{1}{2}$ lakhs limit.
- (c) The line is a branch or chord line connecting with one railway only and no rights of extension are given,
- (d) The construction of the proposed line is not objected to by the owners of the railway to which it is a branch or connecting chord, or by the working Company, if the railway is the property of the State but worked by a Company having a financial interest in its results;
- (e) There are no special circumstances in connection with the proposed line which, in the judgment of the Government of India, render it a case which ought to be reserved for the consideration of the Secretary of State

Note—The Government of India have no power to sanction —

- (a) a chord line connecting with railways of different ownership, or
- (b) an extension of a branch line which when so extended would connect at each end with a railway of different ownership
- (c) capital expenditure on open lines of railway—
 - (i) on a work or group of works included in a railway programme sanctioned by the Secretary of State in Council In these cases the sanction of the programme by the Secretary of State in Council will be a sufficient sanction for all works included in it;

- (ii) on a work or group of works not included in a sanctioned railway programme of which the estimate cost does not exceed Rs. 20,00,000

Note—The Government of India may not sanction any expenditure from loan funds on irrigation works and railways in excess of the limit of the programme for such works which have been sanctioned for the year by the Secretary of State in Council. Provided that in the case of railways they may at the time when the final budget is being prepared in March, sanction an addition, not exceeding Rs 50 lakhs, to the railway programme for next year as sanctioned by the Secretary of State in Council subject to the following conditions: (a) the sum so added shall not exceed the amount of the probable lapse in the sanctioned grant for the expiring year and shall be liable to reduction, if necessary, when the actual amount of such lapse is known, and (b) the money can be provided without material alteration in the Ways and Means programme

- (2) The sanction of the Secretary of State in Council is required to any work charged to revenue (other than railways which will be dealt with as under clause (1) above) of which the estimate of cost exceeds Rs 16,00,000 when provision for establishment, tools and plant is not included and Rs 20,00,000 when it is included.

Note 1.—This rule does not apply to cases in which a work, though subsidised by a lump sum grant from Government, is undertaken by, and on the responsibility of, a local body

Note 2—Expenditure in connection with residences of His Excellency the Viceroy and staff is subject to the following further restrictions:—

- (a) Original works and special repairs The previous sanction of the Secretary of State in Council is required to any project estimated to cost more than Rs 1,50,000 (works outlay). All sanction accorded by the Government of India in excess of Rs 2,500 and up to Rs 1,50,000 shall be reported to the Secretary of State in Council

- (b) Furniture. The previous sanction of the Secretary of State in Council is necessary to any grant in excess of

Rs 42,000 in any one year for public works expenditure on the supply and repair of furniture

- (3) When the estimate for construction of a work either from loan funds or from revenue has been sanctioned by the Secretary of State in Council, the Government of India can ordinarily sanction outlay in excess of the original sanctioned estimate up to an amount of 10 per cent in excess of the estimate, provided that the excess is not more than Rs 12,50,000 including establishment, tools, and plant. In the case of estimates for new railway projects, however, the limits are 25 per cent. or Rs. 50,00,000 over the amounts reported to, and approved by, the Secretary of State in Council. But any excess over a revised estimate or completion estimate sanctioned by the Secretary of State in Council can be sanctioned only by him.
- (4) For the purpose of determining whether the sanction of the Secretary of State in Council is necessary under clauses (1), (2) and (3) of this rule, a group of works, which forms one project, shall be considered as one work and the necessity for obtaining sanction to a project is not avoided by reason of the fact that the cost of each particular work in the project is within the powers of sanction of the Government of India.

Note.—The foregoing clause does not apply in the case of irrigation projects, the construction estimates of which have been closed and further capital outlay on which is being incurred under the rules for open capital expenditure. In the case of railways, proposals for expenditure contained in a completion estimate for any work, whether construction or open line, need not be grouped with any subsequent proposals for expenditure

- (5) Provided that the estimated cost including that of extensions, if any, does not exceed 100 lakhs, and the

administrative conditions defined in Rule VI (I) (b) (ii) clauses (c) to (e) above are satisfied, the Government of India can sanction the construction of a railway, or an extension of a railway already constructed, by a branch line company domiciled in India, with rupee capital, on general branch line terms which have been previously approved by the Secretary of State in Council

Note—The Government of India have full powers to authorize the raising of capital in rupees in India by Branch Line Companies domiciled in India for works which they are competent to sanction and to settle the terms of such issues of capital provided that in respect of guaranteed or rebate aided lines the rate of commission to be allowed is not definitely fixed until the issue is imminent, i.e., in cases where the maximum rate of commission is specified in the preliminary agreement, provision is made that the terms of issue of the capital are subject to the approval of the Government of India.

(6) As regards non-pensionable establishment on State railways, the Government of India exercise full powers in regard to—

(a) creation of appointments and increases and alterations in scales subject to a maximum limit of remuneration of Rs 4,166 $\frac{2}{3}$ a month for any individual appointment;

(b) acting and travelling allowances, bonuses, gratuities, leave, etc.

(7) The Government of India exercise full powers in regard to temporary non-pensionable appointments in the Public Works Department subject to a maximum limit of remuneration of Rs. 4,166 $\frac{2}{3}$ a month for any individual appointment.

VII. The following rules are special to military expenditure :—

(1) The sanction of the Secretary of State in Council is required to any military work of which the estimate

of cost including provision for establishment, tools and plant, exceeds Rs 1,50,000.

- (2) All new measures involving expenditure chargeable to heads Army, Marine, Military Works or Special Defences, the total initial cost of which, plus one year's recurring expenditure, is estimated to exceed Rs 50,000, shall be submitted to the Secretary of State in an annual schedule.
- (3) Expenditure on such measures shall not be incurred
 - (a) in the case of measures which are beyond the powers of the Government of India as defined in the foregoing sections of this Resolution, until the specific sanction of the Secretary of State in Council has been received; (b) in the case of measures which are within the powers of the Government of India as in the foregoing sections of this Resolution, until the measures have been submitted to the Secretary of State in an annual schedule

As an exception to this rule, expenditure of the kind referred to in case (b) may be incurred without previous reference to the Secretary of State, and in anticipation of its inclusion in the next annual schedule, provided that it can be met from savings or lapses in the sanctioned schedule allotment of the year. When expenditure is so incurred, a report should be made to the Secretary of State.

- (4) Except with the previous sanction of the Secretary of State in Council, the total expenditure on schedule measures in any year shall not exceed the total sum allotted for such measures in the budget of the year
- (5) When the estimate for the construction of a work specified in clause (1) of this rule has been sanctioned by the Secretary of State in Council the Government of India can ordinarily sanction out-

lay in excess of the original sanctioned estimate, up to an amount of 10 per cent in excess of that estimate, provided that the excess is not more than Rs. 1,50,000 including establishment, tools and plant.

Note—Subject to compliance with the requirements of clause (2) above, the Government of India may vary the allocation of the total schedule allotment of the year between the different measures included in the schedule without reference to the Secretary of State, or may apply a portion of the total allotment to the prosecution of measures which are included in the schedule, but for which no actual provision has been made

VIII. The sanction of the Secretary of State in Council is required to the grant of—

(1) a loan which is—

(a) of an unusual nature ; or

(b) devoted to objects outside the ordinary work of administration , and

(2) a loan to a Native State in excess of Rs 5 lakhs, or a series of separate loans granted at short intervals to an amount exceeding Rs 5 lakhs

Note 1—In any case where a cash grant would be within the powers of sanction of the Government of India, the grant of a loan of an amount not exceeding that of the cash grant, does not require the sanction of the Secretary of State in Council

Note 2—Loans and advances of the various classes described in Chapter 8 of the Civil Account Code, which have hitherto been sanctioned by the Government of India without reference to the Secretary of State, are not of an unusual nature within the meaning of clause (1) (a) of this rule.

IX. Any objection raised under these rules to any order issued by the Government of India will be reported to the Secretary of State for information, if the objection is overruled by the Government of India, and for the required sanction if the objection is not overruled.

CHAPTER 6

Audit against Appropriation.

50 The appropriation for expenditure is the grant entered in the budget estimates for a year, which estimates are sanctioned, in bulk by the Government of India, and in detail by Local Governments Manner of appropriation.

In other words, the revenue and expenditure proper of the country are broken up into a number of sections, called budget heads, for each of which a separate estimate is prepared, scrutinised and sanctioned. The amount sanctioned then becomes under each head of expenditure a budget allotment.

51 It is the duty of audit to see—

- (a) that the total expenditure of the year under each budget head does not exceed the allotment sanctioned for it, and Check against appropriation
- (b) that at no time during the year has the expenditure up to date under any head proceeded at such a rate that it is likely to exceed the allotment before the end of the year

It is also the duty of audit to watch the proportionate progress of revenue of all kinds throughout the year against the estimates and to bring to notice serious fallings off. This duty is called budget check and is carried out by entering the estimates of revenue and the allotments of expenditure in suitable registers, and posting and watching the monthly realisations and expenditure against them.

52. During the progress of the financial year it is found that the grants under some heads are insufficient while under others they are unnecessarily high. It is, then, possible to supplement the former by reappropriations from Power of reappropriation.

the latter. But each reappropriation implies two failures in the preparation of the Budget Estimate, the failure to foresee the expenditure now asked for, and the request for a grant in excess of requirements. At the same time, the detailed preparation of a Budget Estimate often starts five or six months before the commencement of the year under consideration, and it is difficult so long before to foresee all the possible demands for expenditure which may arise in a country like India

Power of
Local Gov-
ernment.

53. The result of these opposing considerations is that the power to reappropriate is hedged about by rules almost as closely as the power to spend money. The more important rules are as follows —

Local Governments may not exceed the aggregate budget grant for provincial expenditure without the sanction of the Government of India.

Subject to this proviso Local Governments may sanction reappropriations between the Provincial grants included in their estimates. They may also sanction reappropriations between Imperial grants included in their estimates under divided major and minor heads, and under certain wholly Imperial major and minor heads, provided that the total grant under these wholly Imperial heads is not exceeded

Powers of
Heads of
Depart-
ments.

54. But the grants sanctioned by the Government of India are for the service of a whole department. Those grants are usually further sub-divided to control the expenditure of individual disbursing officers. The Secretary of State has permitted the delegation to Heads of Departments of the power to reappropriate within the total grant placed at their disposal. They are forbidden, however, to reappropriate savings under recurring expenditure such as salaries and establishment to meet new non-recurring expenditure*, and also to reappropriate savings under non-

* The removal of this prohibition has been recommended to the Secretary of State.

recurring expenditure to meet excesses under recurring expenditure. The latter is the more important because recurring expenditure which may be met without difficulty in one year may prove to be a burden in future years.

55 If new expenditure cannot be met from the grant for the department in which it is to be incurred it must be sanctioned by Government. Such sanction must be accorded before the end of the financial year. It is definitely ruled that, save for exceptional reasons, expenditure for which no provision has been made in the estimates will not be sanctioned. When, therefore, an application is made for an extra grant or a reappropriation to meet such expenditure it must be explained why it was not foreseen at the time of preparation of the budget estimates, and why its immediate incurring is essential.

At the same time it is also ruled that an amount actually due from Government must be paid at once, and the payment must be recorded, even though there be no sanction. This is to ensure that an innocent party shall not suffer because a Government servant may have broken Government rules in incurring a liability, and that the accounts shall represent exactly what has happened.

56 The result of this phase of audit work is set out in the Appropriation Report of the Comptroller and Auditor General which he submits to the Secretary of State through the Government of India who must forward it with any comments they may wish to make upon it. This report is based on similar reports prepared by the head of every account office in India. It describes first of all the general forecast of the conditions affecting the budget taken into account in framing the estimates, and then how far these anticipations have been realised, and how divergences from these anticipations affected the actual receipts and expenditure.

Comparison
of actuals
with Budget.

A statement is prepared showing for each major head of expenditure the original grant, the net grant after taking into account all subsequent orders affecting the original grant, the actual expenditure, and the excess, if any, still to be sanctioned by proper authority. This statement sums up the result of Appropriation Audit.

57. So far, the description refers to a real Appropriation Report. But the Indian report is more than this. For its preparation a detailed examination of the accounts is necessary, and during this examination other branches of audit work can also be taken up. Thus the report brings to light any breach on the part of the Local Government of the terms of the Provincial settlement.

A description of the other features of the Appropriation Report in its present form may be found in Articles 1549 to 1556 of the Civil Account Code. With one exception they are not described here as the revision of the scope of the report is under consideration.

58. The one feature of the report which requires further mention is that it deals at some length with the results of audit against sanction as well as against appropriation. It shows the amount outstanding under objection at the beginning of the year, placed under objection, and removed from objection, during the year, working up to the amount outstanding under objection at the close of the year. Inasmuch as some portion of this amount represents sums placed under objection for want of vouchers and counter-signature which under the rules need not be supplied until after the submission of the original bill, the report also shows the amount outstanding on the 31st of July after the close of the year.

Inferences are drawn from these statements as to the degree of attention paid to audit rules. Attention is drawn to the more important breaches of those rules.

59. An original Audit Officer who becomes aware of a serious breach of financial rule should not ordinarily defer action until the preparation of the report but report it at once to the authority superior to the officer responsible. He is entitled to be told what action is taken by such authority in the matter. If he does not consider such action sufficient he can refer the matter to the Local Government and is again entitled to be told of the action taken. If he is still not satisfied he can report the matter to the Comptroller and Auditor General.

Method of dealing with important breaches of rule.

The original Audit Officer is not debarred from including in his Appropriation Report cases in which the action thus taken has been, in his opinion, sufficient, but he will rarely include such cases therein unless they are important.

Cases for inclusion in the Appropriation Report of the Comptroller and Auditor General will be obtained from the local Appropriation Reports, from special reports submitted to him by Audit Officers or from the inspection reports of his deputies. Any case included by the Comptroller and Auditor General in his Appropriation Report will be further investigated by the Local Government or Imperial administrative department of the Government of India concerned and the conclusion reported by them to the Comptroller and Auditor General. If he does not consider the action sufficient he will express that opinion to the Local Government or Department concerned who will report the whole case to the Government of India, and it may be that the case will eventually have to be reported to the Secretary of State.

The strength of the Comptroller and Auditor General's position is that he reports to the Secretary of State, and can again call attention in a subsequent report to any case in which he thinks the authorities in India have not taken adequate action.

CHAPTER 7.

Allocation of expenditure to Capital and Revenue

Special accounts necessary in the case of commercial undertakings.

60. In Chapter 2, paragraph 6, above the importance is emphasised, in dealing with commercial accounts, of a correct allocation of expenditure to the Capital account. Some departments of Government as for example Railways, Irrigation, Post and Telegraphs, are worked on a commercial basis, and capital accounts are maintained for such departments. They are termed in the Civil Account Code quasi-commercial departments.

Preliminary investigations.

61. Just as a merchant will not embark on any new venture until he is satisfied that it is going to pay him, so it is incumbent on the responsible officers of Government, before deciding on any scheme of railway * construction, to "count the cost" and satisfy themselves that the revenue to be derived from the working of the projected railway, after meeting all expenses connected with its operation, maintenance and upkeep, will repay the interest on the capital expended on its construction and equipment†.

An essential preliminary to the construction of a new railway, then, is an estimate of the cost of such construction and of the probable gross revenue which will be realised after construction. This information enables the authority, who under the Audit Resolution has power to sanction the construction of a railway, to determine whether sanction should be accorded to the construction or not.

* NOTE.—For the sake of simplicity railway schemes only are referred to in this description. It is equally applicable to a scheme for any other form of Government undertaking on commercial lines.

† This general principle is not followed in determining whether a railway shall be constructed from the Famine Insurance grant mainly with a view to alleviating the results of famine in any tract.

Distinction
between
Capital and
Revenue.

62. The success of a commercial undertaking is determined by the percentage of the net profits to the capital expenditure. It is essential then to distinguish between expenditure which is debitable to Capital and Revenue accounts respectively. Mr. Dicksee in his treatise on Auditing draws this distinction as follows :—

“ Shortly stated, the question can in any event be answered by finding the answer to the following question :
“ Has the particular expenditure incurred in any individual case been incurred for the sake of improving the earning capacity of the undertaking ? If the answer to this question is in the affirmative, then, and to that extent, the expenditure in question is Capital expenditure. But if it has only had the effect of putting the earning capacity of the undertaking upon the same footing as that which had previously obtained (and which has since declined by the ordinary process of wear and tear, or the effluxion of time, in respect of which no provision has been made) it must be charged against Revenue. The precise meaning of this latter qualification is that the mere renewal of wasting assets, not otherwise provided for, cannot be called Capital expenditure, but that any extension, or the acquiring of fresh assets, is in the nature of Capital expenditure ”

63 It is obvious, then, that the whole of the initial expenditure on the construction of the railway prior to its being opened for traffic must be reckoned as Capital expenditure, but that the Capital expenditure on a railway does not cease with the closing of the Project Estimate. That estimate merely provides for the first construction and equipment of the railway to meet the needs of traffic anticipated at the time of opening. As the traffic expands so the need for additional facilities increases, and, inasmuch as there is practically no limit to the expansion of traffic

Expenditure
on construction of a
Capital
nature.

on a railway, the Capital account of the railway is never actually closed, but is added to from time to time in respect of extensions, enlargements, alterations, and substantial permanent improvements which add to the original value or durability of the property

64. With effect from the date of opening of the Railway a separate set of Revenue accounts has to be kept up in addition to the set of Capital accounts previously maintained; and in the preparation of estimates, the allocation of bills, and the final record of expenditure in the accounts, a clear distinction has to be drawn between expenditure of a Capital nature, such as is referred to above, and the money spent on establishments employed in earning revenue, or on the carrying out of repairs, maintenance, restorations, renewals, appointments, and substitutions chargeable to the Revenue account

Rules of
allocation in
India.

65. The first serious attempt to apply the general principles enunciated in paragraph 62 above to the detailed facts dealt with in the open line accounts of Indian railways was made in Sir Charles Wood's despatch of 1864, relevant portions of which are quoted below :—

- (a) " There can be no doubt that the expenses of an additional length of railway, of the doubling of an existing line, of the original construction of any work including that of those intended to be only temporary, as well as of all additions to existing works, ought to be charged to the Capital account."
- (b) " When new lines form a junction with an existing railway, the expense of the junction, and all its concomitant appliances of stations, sidings, signals, etc., is properly chargeable to Capital account and the cost should be divided, in such

proportion as may be fair, between the two railways for whose mutual and joint benefit the junction is made "

- (c) " The cost of additional stations and of any important building, not previously contemplated, which is added to an existing station, should be charged to Capital account."
- (d) " The cost of maintaining in a proper condition the works when completed must be charged to the Revenue account, but if any extraordinary casualty should occur such as the destruction of a bridge by flood, the case must be regarded as exceptional, and the cost of construction or replacement must be charged to Capital or Revenue, or divided between them, as may be deemed proper, according to the circumstances of the case "
- (e) " In relaying rails, if the original rails have proved too light and additional strength in weight of iron or steel be required, the Capital account should bear the difference between the cost of the new and improved rails and that of replacing the old rails by rails of similar character, Revenue being chargeable for relaying and all other expenses. The same principle should be applied to replacing by iron sleepers those of wood originally laid down "
- (f) " In the locomotive stock, Capital ought to bear the first expense of any addition which may be made to the existing stock and of any important improvement or alteration which may be made in the same, as well as of machinery which is absolutely new, and not merely in replacement of old : but all repairs and less important altera-

tions of the existing stock of engines, carriages or wagons already paid for and handed over for working purposes should be charged to Revenue. The rolling stock and plant, after being once paid for from Capital must be kept by Revenue to its full complement."

- (g) "In no case should the cost of mere appurtenances of stock, after the opening of a line, or of a charge such as the substitution of one mode of lighting for another, whether in engines, carriages, stations or signal lamps, the cost of which has already been paid for out of Capital, be admitted as capital expenditure. These properly belong to the traffic Revenue account."

The guiding principle right through, it will be observed, as that Capital having once paid for a work or service should not be charged over again in respect of the same work or service, so that the Capital (or Block) account may represent at any time the actual value of the railway and its equipment. This guiding principle is in accord with the general rule enunciated above. There are, however, minor deviations. Thus the cost of a work which has been abandoned and not replaced is not in practice written off to Revenue, but remains at debit of the Capital account. Theoretically, in order to arrive at the present value of the existing asset, an allowance would have to be made for depreciation, wear and tear, etc; in actual practice, however, no such allowance is made as a railway is always supposed to be maintained in a state of efficiency, but, in lieu thereof, the entire cost of a replaced work is charged off to Revenue at the time of replacement

66. With these principles to guide him the audit officer should find no difficulty in deciding to which head, Capital or Revenue, an item of work is properly chargeable, if it is

purely an addition to or in substitution of an existing work. Cases, however, arise in which the work partakes of the nature of both substitution and addition or substantial improvement, and these are not quite so easy to deal with.

Take for example the case of substituting heavy rails Rails. for light ones. Here it is clearly recognized that the obligation of Revenue would be met by providing rails of the same weight as those which have been used up in the service of Revenue, and that Revenue is liable only to such extent. But the extra cost of the new heavy rail may be due not only to the increased weight but also to the increase in the price of rails, and in that case Revenue is responsible for the extra cost due to the increase in price on the weight of the original rail. Thus the rule in this case is that the charge to Capital based on differences in cost should never be greater than that arrived at on the basis of charging to Capital the proportion of the cost of the new rails attributable to increased weight.

The charge to Capital, it will be observed, is always restricted to the increased value of the *material asset*, the cost of labour in relaying being chargeable wholly to Revenue (see (e) above) on the principle that Capital, having originally provided a *finished* article, it devolves on Revenue to pay the extra cost involved in taking up that article and putting a new, though improved, one in its place.

The same principle applies *mutatis mutandis* in the renewal Girders. of iron or steel girders on bridges: where, however, the material used in the renewal or substitution is of a different class from that employed in the original construction, such, for example, as the substitution of iron sleepers for wooden ones, or of a masonry bridge in place of a girder bridge, the basis of increased weight obviously cannot be applied and the charge to Capital has to be based on difference in cost alone.

Rolling
Stock.

67. Formerly, charges to Capital for substantial improvements were confined to permanent way, engineering works, etc, the practice in regard to rolling stock having been to replace an engine by an engine and a vehicle by a vehicle, regardless of increased power on the one hand or improved carrying capacity on the other. At the instance of certain Railway Companies, under whose contracts the cost of substantial improvements wherever effected is a proper charge to Capital, the practice was altered, and, following the principle adopted in the case of relaying with heavier rails, the charge to Capital is now measured by the effective value of the improvement, based in the case of engines on increased tractive force, and in the case of coaching and goods vehicles on increased floor area and carrying capacity respectively, subject always to the charge so arrived at not being greater than the difference between the cost of the new article and the original cost of the article it replaces

Improved
appurten-
ances.

68. The excess cost of improved appurtenances such as the substitution of automatic vacuum brakes for handbrakes, and of gas or electric light for oil lamps, is also now admitted as a separate charge to Capital. This it will be observed involves a departure from the general principle enunciated in paragraph 62. A similar departure is to be found in extract (d) from Sir Charles Wood's despatch—see paragraph 65. The exceptions in these cases are held to be justified by the very large sums involved.

CHAPTER 8

General remarks on important audit rules

69 It is impossible, even in the most detailed rules, to provide instructions which will meet every possible case and thus some rules which Audit Officers have to apply have to be worded vaguely so as to cover a wide area.

70 Thus one important rule in the Audit Resolution ^{Public} states that the sanction of the Secretary of State in Council ^{purpose} is required to any expenditure exceeding Rs. 500 in any one ^{audit.} case which is of an unusual nature or devoted to objects outside the ordinary work of administration, or to any expenditure likely to involve at a later date expenditure beyond the powers of sanction of the Government of India. This rule is worded vaguely and one may assume that this has been done deliberately in order that the audit officer may exercise his discretion in applying the rule in audit. There is no doubt that the Secretary of State's intention will become more definitely crystallized as cases arise and are referred to him for orders.

71 But it may be interesting to indicate a few cases which he has stated ought to have been challenged, or in which he has granted, without comment, sanction asked for under this rule, so that it may be assumed that, in his opinion, they were properly reported to him for sanction. One such case is shown in the note to the article, *viz.*, the purchase of a railway line by Government. Another case was the chartering of a ship to convey pilgrims to Mecca from Aden, where they had been landed on the breaking down of a pilgrim ship, the authorities being anxious to remove them from Aden as they were becoming excited at

the lengthy delay in their pilgrimage. Expenditure on a Government building used as a hotel has also been held to fall under this category, and also expenditure (1) for the provision and up-keep of grounds which were to be utilized for polo, (2) on a contribution to a recreation club for the officers of a certain branch of Government service, and (3) on the maintenance of gardens adjoining a house occupied by a Government servant during the period of his occupancy.

Expenditure likely to involve heavy subsequent expenditure 72 An interesting case, falling under the last part of this rule which requires the sanction of the Secretary of State to expenditure which may involve at a later date expenditure beyond the powers of sanction of the Government of India, arose out of a proposal of one Local Government to create certain temporary appointments as an experimental measure with a view to the constitution of small areas within a district with a Gazetted Officer in charge of each. It was considered almost certain that the result of the experiment would be the introduction of the system permanently in that province. It was held, then, that it would probably involve at a later date expenditure beyond the powers of sanction of the Government of India and that it required, therefore, the sanction of the Secretary of State

Grouping for the purpose of sanction. 73. Another extremely important point in the Audit Resolution is the statement that for the purpose of these rules a group of works forming one project shall be considered as one work

Considerable differences of opinion have existed in the past as to the circumstances in which works required to be grouped into one estimate for purposes of sanction, but with the approval of the Secretary of State it has recently been decided that the interdependence of the works should be regarded as the determining factor, at least so far as works

on railways are concerned. Thus, it has to be considered in each case whether or not a particular work is complete in itself for the purpose it is intended to serve, independently of the construction of another work of the same or a different class, whether in juxtaposition to it or separated from it by a distance.

74. Inasmuch as the power of sanction depends upon the amount of an estimate there must be sometimes a temporary ^{Subsidiary works to be entered in an estimate.} to keep an estimate within the powers of sanction of a subordinate authority by omitting from it a few of the less important features. It is important, then, to have some working rule as to the subsidiary works which must be included in the project estimate of a large scheme. This rule may be expressed thus.—“A project estimate for a scheme should contain estimates of all those subsidiary works which are essential in order that the scheme may fulfil the purpose for which it was undertaken.”

It is also desirable that it should contain estimates of all those works which are essential in order that the scheme may meet the probable immediate demand for the service to render which it is undertaken. But audit cannot insist on the acceptance of the latter proposition in the framing of estimates while it can in respect of the former.

Though it is difficult to formulate these rules in words it is easy to show their application to concrete instances. If a railway is being constructed it must have at least one line of rails, and some stations, engines and rolling stock and the cost of these must be included in the project estimate. To meet the probable immediate demand it might be preferable to have a broad gauge line and stations every five miles and if the money were available it would be more economical to build the line on that scale at once. But if it be decided to build the railway on the metre gauge with stations every ten miles, and if thereby the estimated

cost be brought within the powers of sanction of a lower sanctioning authority, Audit can raise no objection.

75. The Secretary of State has made no similar pronouncement in respect of Civil and Public Works expenditure, and the Government of India have consistently refused to issue any general instructions, considering that it is for audit officers to form their own opinion and to object, if they deem such action necessary, and then to await the evolution of principles during the discussion of these objections. There is much to be said in favour of this view, as there must be many varieties of schemes, and it is impossible to frame a definition which will meet every case. No principle, then, can be evolved which shall be of final authority, and audit officers must remember this and be ready to exercise an independent judgment. But some general principle must be evolved as a rough guide, and the Royal Decentralisation Commission have attempted this task in paragraph 132 of their report. They say : "The question to be asked in such a case is whether expenditure in one or two districts could stop there, or whether it must inevitably lead to outlay elsewhere. In the former case the expenditure immediately contemplated should be considered by itself, in the latter, the financial result of its general application must be taken into account".

This is based on the same general idea of interdependence which has been accepted by the Secretary of State in respect of railway schemes. Even if there were not this coincidence, the pronouncement of such a high authority would naturally carry great weight.

But both the Secretary of State and the Royal Decentralisation Commission would admit that there are many varieties of schemes, and that more than one principle may be needed as a guide. I would mention another which has been put forward by high authority in the Government of

India in considering such cases. It was expressed in the following words—"The only real criterion is the intention of "the authority who originates the scheme."

Inasmuch as it has been the avowed intention of the Government of India to allow this question to be solved by case law it is necessary to mention briefly the more important of the extant decisions. The Secretary of State has decided that the following were to be considered as schemes for the purpose of sanction :—

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

The Comptroller and Auditor General has treated the following as "schemes" for the purpose of sanction and these decisions have been accepted without comment by the Secretary of State.

- (4) The changes accepted by the Local Government on the report of a Committee to enquire into the methods of work, the rates of pay and the adequacy of the subordinate establishments in all Government Offices in the United Provinces.

Here the point was that the Committee were asked to unify methods of work and rates of pay for the same class of work, and to evolve a working system by which the number and pay of clerks in all offices were to be regulated.

- (5) The increase in cost, over that shown in the original proposition statement for the estimated cost of effecting all the changes effected in the United Provinces as a result of the Report of the Police Commission, when all those changes had been carried out and the actual cost could be stated

I venture to think that a study of the decisions given by the Secretary of State in cases (1) to (3) above will indicate that those decisions must have been based on something more than mere interdependence. Thus some of the improvements referred to in case (2) could have been carried out without the execution at that time of the other improvements. It is very difficult to enunciate a principle but I think that some of these decisions must have been based on some such underlying principle as this. All expenditure incurred at or about the same time on objects arising directly from the central idea underlying a scheme must be considered as incurred on that scheme for the purpose of sanction. The idea of interdependence is based on a collateral link. I venture to think that an ancestral link is preferable, by which I mean connection through one central idea rather than by interdependence.

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

This applies to future expenditure the rule laid down by the Secretary of State in clause III (1) (c) of the Audit Resolution.

A warning must again be conveyed that this question is by no means thrashed out. For the present it is sufficient to mention the principles which have been brought to notice above. Eventually case law may elaborate a more detailed set of rules. There are three main links, whereby grouping may be effected, *vis*, those of time, space, and purpose, and eventually a set of rules may evolve indicating, more clearly than has been done up to the present, how far any or all of these links ought to be present in order that various works or objects of expenditure must be grouped together for the purpose of sanction. Seeing that the question is by no means yet settled audit officers must exercise a careful and independent judgment in respect of any case in which it arises. They may accept and act on these principles but they must not expect to find a solution for every problem by their application. These principles may even be found to conflict when applied to a particular case. In that event a reference to higher authority will be necessary.

76 It is, of course, understood that no work, or establishment, which under the above rules has to be grouped with another or included in the project estimate of a larger scheme, may be sanctioned by any authority lower than that having power to sanction the group of works in the first place, or the larger scheme in the second.

77. Another pronouncement of the Secretary of State, which has to be kept in mind, was made by him when dealing with a Railway case, but there is little doubt that it was meant to be of general application. The pronouncement was that if the Government of India wished to act contrary to a decision or an opinion which the Secretary of State had already expressed, they could not do so without his express sanction.

78. Another most important phase of audit work, is the detection of extravagance. In this respect Government

Secretary of
State's
opinion to
be followed

Extravagant
expenditure

relies very largely on the controlling officers, for it is their duty to determine whether purchases are made at fair rates or whether a journey performed by a subordinate officer is necessary and is completed with due expedition. But the audit officer is not wholly absolved from a share in the responsibility. As regards rates his share is restricted to considering whether they are extravagant. As regards Public Works expenditure he is told (in Public Works Department Code, paragraph 360) that, while avoiding any assumption of control, he must bring to the notice of the administrative officers of the department all transactions appearing in the accounts which appear to indicate irregularity or want of attention to economical considerations.

There can be no doubt as to the wisdom of the distinction of the duties of the two classes of officers as regards rates. For the controlling officer, with his intimate knowledge of the details of the work in question, must be in a far better position than the audit officer to determine fair rates. At the same time it is necessary that the audit officer should not be wholly absolved from responsibility in this important branch of audit work.

79 The procedure which he is ordered to adopt, if he considers Public Works expenditure to be extravagant, has now been prescribed for adoption generally. The audit officer must report the matter to the controlling authority of the officer whose expenditure he calls in question. That officer will investigate the matter and will forward to the audit officer his opinion whether the expenditure is extravagant or not, with his reasons. If the audit officer is not satisfied with the explanation, or if he considers that the action taken in the matter is insufficient, he is at liberty to report the matter to the next higher authority. It is understood, however, that no audit officer is to report such a matter to the Government of India except through the Comptroller

and Auditor General Such cases under the rules have to be dealt with exclusively by the head of the audit office, and an audit officer cannot order the recovery of the expenditure except at the request of the proper administrative authority

80 This question of checking extravagance in audit is probably of principal importance in those accounts offices such as railway and military offices, which deal with important workshop and store accounts, but it is probable that audit work in all offices in India will be more valuable if more attention be paid to this branch of audit and less to the enormous volume of work arising from the application in audit of the rules contained in the various codes concerning amounts drawn by officers of Government in the shape of pay and allowances.

CHAPTER 9

The spirit of audit and of interpretation

The spirit of
audit

81 There is another very important class of orders to which I must call attention prescribing the spirit in which the audit officer is to carry out his duties I am afraid that the orders are by no means easy to reconcile But it is the duty of the audit officer to reconcile them as far as he possibly can Thus Article 1635, Civil Account Code, formerly stated that an Accountant General is bound to ascertain that rules and orders are exactly obeyed in every instance and to check every departure from them, however apparently trifling On the other hand, in the Public Works Department Code (paragraph 1442) there is a rule that an Examiner, while careful to prevent unnecessary expense and irregularity, should not be too precise in trifling matters which are of no importance to the finances of the State but which may be made very troublesome to those who have to account for them

82. It was felt that the literal application of the civil rule would tend to make an audit officer unduly meticulous This view of the matter has been expressed thus—

“The question arises what is the true purpose of an audit establishment? Some audit officers seem to think that they exist to apply as fully and minutely as possible certain rules laid down for their guidance Such a view does not, however, envisage the fundamental object of an Audit Department, which is to save the tax payer’s money by seeing that expenditure is not irregularly and wastefully incurred.

“For such a purpose it is necessary, of course, that rules of procedure should be laid down but, if these rules are to be regarded as ends in themselves and not merely as means to an end, the inevitable tendency is for audit officers to insist rigidly on relatively petty matters and thus to frustrate the real object of their existence. For it is clear that if a lot of time and trouble is taken up, and friction probably engendered, over expenditure of a very trifling character in regard to which there has been only a very technical, as opposed to a substantial, irregularity, the State, and therefore the tax payers are losers. That is, it is better often to pass some not fully regularized expenditure of perhaps a few annas than to embark on lengthy controversy in respect thereto. Further, human capacity being what it is, it is certain that undue insistence on petty or technical details gives the audit officers less time to investigate really important cases in which their intervention is desirable.”

83. In accordance with this view the Secretary of State has sanctioned the introduction of the following rule which is to override the rule contained in Article 1635, Civil Account Code, whenever the two rules conflict:—

“(1) An audit officer of or above the rank of Deputy Accountant General may, in order to save time and trouble over very petty sums, waive any audit objection up to a limit of Re 1 in each case, and any gazetted officer in charge of a section of an audit office may exercise the same power up to a limit of annas 4 only.”

“*Note*—If the irregularity is one that is likely to recur, the office responsible should be told that it is objectionable even though no recovery be made.”

“(2) Some items are placed under objections not because the whole or any portion of the expenditure is unjustifiable in itself, but because it is not exactly covered by rule, or

“the authority for the expenditure is insufficient, or full proof that it has been incurred has not been provided, *e.g.*, there is an absence of one or more sub-vouchers. In such cases the head of an audit office as defined in note 2 may waive an audit objection up to a limit of Rs. 50 in each case, provided—

“(a) that the expenditure is not of an intrinsically recurring nature; and

“(b) where the objection is based on insufficiency of sanction, that he is satisfied that the authority empowered to sanction the expenditure would accord sanction if requested; or

“(c) where the objection is based on insufficiency of proof of payment, that he is of opinion that undue trouble would be caused if the submission of the full proof of the expenditure having been incurred were insisted on, and he sees no reason to doubt that the outlay has actually been made”

Note 1—This power cannot be delegated to any subordinate officer

Note 2—[It is unnecessary to give these details here]

“(3). In the case of items which have become irrecoverable from any cause an audit officer of or above the rank of Deputy Accountant General may write off an amount not exceeding Rs. 50 in each case”

This gives an Accountant General considerable discretionary powers in waiving objections which he is confident will be regularized

84. The following procedure then should be adopted in an audit office. The actual person performing the original audit, who will be usually a clerk, must apply the rules strictly. It cannot be expected that the clerks on comparatively low

pay who perform the detailed audit will have the judgment or breadth of view necessary to exercise the discretionary powers indicated above. But once the detailed audit has been strictly carried out and every infraction of rule brought to light, it will then be for the competent audit officer to exercise the discretion vested in him under the orders quoted above and to determine the cases in which the objections which might be raised under the strict letter of the law can be waived.

But if the objection is of such a nature that it cannot be waived under the rule quoted above, it is then the duty of the audit officer to press it quietly but firmly. The more important the objection the more necessary it is to couch it in language which shall be courteous and impersonal.

85 The audit officer must remember that his fundamental duty is to assist Government. He is entrusted with responsible but unpleasant functions and he must remember that he does not assist Government if he raises in the minds of other Government servants the feeling that he is far more willing to apply strict audit rules than to assist in other ways. Whenever, therefore, the Government invites his assistance he should give it with the utmost willingness and to the best of his ability. Whenever he has to inspect an office he should not only point out mistakes but also how they may be rectified and in future avoided. He must educate as well as investigate.

Method of
interpreta-
tion of
orders

86 The discretionary powers which have been vested in the Auditor General are set forth in Chapter 5, paragraph 44, above. The exact wording of these orders of the Secretary of State is important when an attempt is being made to indicate the spirit in which audit should be conducted.

87 Finally, audit officers should remember that exceptional cases may arise in which it is desirable to relax formalities which they would follow strictly in ordinary cases. Thus in one case on retirement an officer went to a far country and

Relaxation of
formalities
in excep-

sent bills for the balance of pay due to him. These bills were stamped with stamps of that country and the officer did not endorse on the bills the fact that he wished the bills to be made payable to a certain bank although he had left a letter in which he had expressed the wish that the amount of his bills should be paid over to that bank. In view of the special circumstances of the case it was held that endorsement on the bills themselves might have been dispensed with, and that the value of the requisite Indian stamps might have been deducted from the bill and the stamps purchased therewith and affixed. Audit officers must remember, however, that circumstances must be really exceptional before rules are relaxed, and even then the relaxation must be of formalities rather than of essentials.

88 Considerable experience is necessary before an officer can become expert in interpreting the rules which he has to apply in audit. These are found mainly in a number of Codes which have been framed by the crystallisation of departmental case-law over a long period of years. With each new edition out-of-date orders are supposed to be removed and important orders of permanent interest, which have been passed since the last edition, introduced, ephemeral orders being neglected. Thus Article 1(b) of the Civil Service Regulations runs as follows :—

“Many orders applying to particular appointments or to particular individuals are not included in them ; but with this exception the Regulations have been framed so as to embody all orders still in force affecting the acting allowances, the leave and leave allowance, the pensions, and the travelling allowances of officers, the conditions of whose service in respect to these matters are not defined by the Army and Marine Regulations.* The omission from the Regulations of any order on those matters which is believed

* The practical effect of the two concluding sentences will be best understood from the paragraphs which follow 89 to 93.

“to be still in force should be brought to the notice of the Government of India through the proper channel. Until so confirmed, it should be considered as not in force*.”

89 It will also be noticed that Indian codes rarely contain any reference to the orders on which they are based. This has been done deliberately because it is felt that decisions in audit matters should be based upon the actual words used in the codes

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

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

92. In the application of rules to concrete cases an audit officer may find :—

(1) That the application of the rule both in letter and

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Method of
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(1) That the application of the rule both in letter and

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in spirit is clear. In such cases it is for him to give his decision. If there are special reasons which in any case render the decision inequitable it is for the administrative authorities and not for the audit officer to move in the matter.

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

93 A young officer may enquire how he is to ascertain the intention of any rule otherwise than by a careful interpretation of the words. Such intention can be ascertained authoritatively only by reference to the discussions leading up to the framing of the rule, *i.e.*, to the files of the Government of India. Such files, of course, are not ordinarily accessible to audit officers. There is, however, in every audit office an atmosphere of experience and also records of cases in which the underlying intention of the rule has been discussed. Valuable knowledge can be obtained from such experience and records and should be stored carefully in the minds of audit officers; but it is necessary to warn them against an uneasy desire to look beyond the authorised codes when deciding each and every case. An audit officer should not look to find, outside

regulations, a ruling which shall form an exact precedent for every case with which he has to deal and, whatever guidance he may in fact obtain elsewhere, the decisions at which he ultimately arrives should be such as he is prepared to justify on the regulations as they stand without appealing to external authority

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

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

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

CHAPTER 10

The structure of Audit Offices

Audit Offices 96 Government audit in India is conducted in four classes of offices, *viz*, the civil offices which audit Civil, Public Works and Forest expenditure, and the railway, post and telegraph and military offices which audit the expenditure of those departments respectively

97 Military audit is conducted by the Military Accounts Department, while officers of the Indian Finance Department man the civil, railway and post and telegraph audit offices. The Comptroller and Auditor General is the final audit authority in India in the military as well as in the other branches of audit work, but he has no administrative relationship with the Military Accounts Department, whereas he is the head, under the Finance Department of the Government of India, of the Indian Finance Department.

98 As this manual is intended primarily for the use of the Indian Finance Department, it does not contain any details of the work done in military account offices.

Civil. 99 The civil account offices are eleven in number. There is one in each province, under Accountants General in Bengal, Bombay, Madras, Punjab, United Provinces, Bihar and Orissa, and Burma, and under Comptrollers in the Central Provinces and Assam. There is also a Comptroller, India Treasuries, who audits the expenditure of the Government of India, of the minor administrations such as Coorg and Ajmer-Merwara, and of the treasuries under the Foreign Department of the Government of India. There is a separate temporary office called the Audit Office,

Delhi Province, the need for which arises from the large expenditure to be incurred in building the new Capital.

100 There are thirteen important railways in India ^{Railway.} Ten of these belong to the State, of which three are worked by the State itself and seven by Companies. The other three belong to Companies who also work small lines belonging to the State*. The audit work on the railways worked by the State is conducted entirely by officers of the Indian Finance Department. On the lines worked by Companies the audit is carried out by the Companies' officers, but the interests of the State and of the Company do not always coincide, and so it is necessary to have an officer of the Indian Finance Department with a small office attached to each railway to check the audit in certain respects. Thus there are three offices of Chief Examiners of State Railways, and ten offices of Government Examiners.

Finally there is one office dealing with any specially large construction work that may be in hand, such as at present the Sara Bridge. There is also the central office of the Accountant General for Railways.

101 The audit offices under the Accountant General, ^{Post and Telegraphs.} Post and Telegraphs, number six. There are four postal offices — at Calcutta, Nagpur, Delhi, and Madras — and two telegraph offices at Calcutta, one for ordinary audit and one to check the telegraph receipts, of which, however, only a small portion is checked.

102 Finally there is the office of the Examiner, Military ^{Military Works.} Works, who audits, under the immediate control of the Comptroller General, all the expenditure on Military Works.

103. The Accountant General for Railways is described as an original audit officer while the Comptroller General and the Accountant General, Post and Telegraphs, are not. ^{Accountant-General for Railways, an original audit officer.} The reason for this is that any order issued by the Railway

* The connection of Companies with Indian railways is described briefly in paragraphs 190 and 191 below.

Board carries the authority of the Government of India. But the rules determining which orders the Board can issue of their own motion, and which only after consultation with other departments of the Government of India, are very complicated, and the duty is imposed upon the Accountant General of auditing the sanctions issued by the Railway Board. No such duty is imposed upon the Accountant General, Post and Telegraphs, or on the Comptroller General.

Comptroller
General's final
audit
authority.

104 But although the Comptroller and Auditor General is not an original audit officer, yet he is the final audit authority in India, and in any case in which another audit officer holds that the sanction of the Secretary of State is requisite, the Government of India have the right of appeal to the Comptroller and Auditor General, if they consider the view of the original audit officer to be incorrect.

His inspec-
tions.

He also checks the work of the audit officers through inspections of their offices carried out by his two civil Deputy Auditors General. The primary duty of these officers is the inspections of each civil and post and telegraph audit office and of the office of the Examiner, Military Works but they also occasionally inspect railway and military audit offices in order to see that the general system of account and audit is correct. But the detailed inspection of these departmental audit offices is entrusted to departmental inspecting officers who are practically railway and military Deputy Auditors General.

Inasmuch as the Comptroller and Auditor General is not an original audit officer he has no direct means of knowing that the sanction of the Secretary of State is asked for whenever necessary. The proper performance of this important duty can be checked by him only through the inspections of his Deputy Auditors General. This check, then, is an important part of their duties.

Distribution
of audit work
in civil
offices.

105 In a civil audit office the actual audit work is carried on in various sections. Bills payable at head-

quarters are usually audited before payment: these, then, are dealt with usually in a separate Pre-audit Department. Bills paid elsewhere are paid before audit, and come from the treasuries into the Treasury Audit Department. There are usually separate sections for the audit of certain classes of bills, such as those of gazetted officers and of other officers whom the Local Government permit to be treated like gazetted officers; those relating to the Forest Department, pensions, deposits, military police and marine bills. Such bills, after check with the corresponding entries in the lists of payments, are sent to those sections for audit. All other bills are audited in the Treasury Audit Department. In most offices each auditor in that department is responsible for the audit of all or of some of the bills audited in that department coming from one or more districts and for the compilation of all the bills of those districts whether audited by him or not. In Lahore, however, the experiment is being tried of having separate sections for the audit of establishment, travelling allowance and contingent bills and for compilation. The experiment is an interesting one, but has not yet been so successful as to warrant the reversal of the existing procedure in other offices.

After audit in the various sections the bills are sent to the Treasury Audit Department for entry in the Classified Abstract which is the first step in the compilation of the accounts.

This is unnecessary in Madras, as the treasuries there submit their accounts in the form of the Classified Abstract.

106 The officers of the Public Works Department still pay all bills for work done and submit monthly accounts to the audit offices. These are received and audited in the Works Audit sections and are then passed on to the Treasury Audit Department for incorporation in the Classified Abstract.

107 All bills and returns are first received in the Postal Account or Telegraph Audit section, and are checked with the cash accounts to see that the correct amounts (debits and credits) are entered. Passage of bills through a post and telegraph audit office.

or credits) are entered in the latter. They are then taken up for detailed audit and record of audit, with the exception of certain specified classes of bills such as those of gazetted officers and works bills, which are sent for audit to special sections of the audit office. Similarly, Money Order and Savings Bank returns (which correspond to the 'Bills and Deposits' returns of the civil treasuries) are transferred to the respective branches of the audit office.

**Classified
Abstract.**

A separate Pre-Audit section also exists, as in civil audit offices, for the disposal of bills payable at head-quarters.

In postal audit, Classified Abstracts are prepared in the audit office from the accounts and schedules submitted by the post offices. In the Telegraph Department, however, the accounts are received ready classified in what is known as 'the Primary Abstract.'

**Passage of
bills through
a railway
audit office**

108. The audit of all expenditure on open lines of railways is carried out before the expenditure is incurred. There are separate sections for different classes of expenditure and the bills on receipt in the office are sent to the sections concerned for audit. After audit they are entered into an abstract of Bills Passed. From this abstract the entries are made in the Cash Book and the bills then made over to the cashier for payment. From the Cash Book the payments are carried into the journal, and thence into the Capital and Revenue Ledgers, from which the monthly accounts are prepared.

Expenditure on lines under construction, however, is audited after payment, and the accounts of such expenditure are compiled in the divisions and sent into the railway account office for audit and for incorporation into the accounts.

There is also a separate branch of the office for the audit of the receipts. Here there are three main sections—Coaching, Goods and Booking. The accounts on receipt are sent into the audit section concerned, *viz.*, Goods and Coaching

and then into the Booking section where the accounts are finally compiled.

109. In the Military Works Department payments for ^{Military Works audit} works and for establishment are still made by Assistant office. Commanding Royal Engineers of districts. The vouchers of payment are fully pre-audited by the District Accountant and are then submitted to the Examiner's office with the compiled accounts. These accounts are audited in the Examiner's office in the Account Audit Branch and a percentage of the vouchers fully checked. This branch also audits the contingent charges of each district, as in Military Works the contingent bills are submitted with compiled accounts.

The establishment and travelling allowance bills, prepared in the district offices by the Accountant, are paid before final audit. Immediately after payment they are submitted to the Examiner's office, where they are audited in the Establishment Audit Branch, and are returned to the district office for inclusion of the audited figures in the compiled accounts. The Accounts Audit Branch, in passing the accounts of each district, compares the establishment payment vouchers with the audited salary and travelling allowance bills; over—or under—payments are thus checked and recorded for adjustment.

The accounts after audit are passed to the Booking Branch of the office, which collects expenditure by districts in the Provincial registers, from which the Revenue and Expenditure statements are prepared for submission to the Comptroller and Auditor General for incorporation in the General Accounts.

The unit of audit is an auditor and an assistant. Each account auditor deals with three sets of compiled accounts and each establishment auditor with seven sets of salary and travelling allowance bills.

CHAPTER 11

Correspondence

110. Correspondence bulks so largely in the work of an account office that a few hints on this subject may be not without value—

- (1) The advice given in paragraph 84 may be reiterated that correspondence regarding objections must be courteous and impersonal
- (2) Reminders must be issued at regular intervals if answers are not received in due course This must not be treated, however, merely as routine work. If reasonable time is allowed for a reply the receipt of a reminder is a reflection upon the working of an office, and, if two or three reminders fail to elicit a reply, it may be presumed that there is something wrong in the office at fault The head of that office should then be addressed personally, and, if that action fails to elicit a reply, the matter should be reported personally to that officer's immediate official superior
- (3) In the same way, it is not sufficient merely to enter in successive objectionable item statements items of Public Works expenditure which have to be placed under objection for want of an estimate or for some other reason As soon as the delay becomes so serious as to raise a presumption that it is due to defective work in the office of the Executive Engineer the matter should be reported by special letter to the Superintending Engineer or to the Local Government.

PART II.

A summary of the methods of audit.

CHAPTER 12

Introductory.

111 The bills received in audit offices fall into the following categories :—

- (1) Those concerning payments to Government servants, *eg*, for salaries, travelling allowances and pensions :
- (2) Those made to other outside persons or bodies—such as payments for contingencies, supplies and services, grants-in-aid, or for work done

Special branches of audit which will also have to be discussed briefly are those relating to the check of railway and telegraph receipts, workshop and store accounts and, in the postal account offices, to money order and savings banks accounts

CHAPTER 13

Remuneration of Gazetted Officers and of Establishment

112 A salary bill is the descriptive name given to the bill drawn by a gazetted officer or by an officer permitted to draw his salary in that form, while the remuneration of other Government servants is drawn on establishment bills.

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

(a) the title of the officer to the remuneration drawn by or for him :

(b) in the case of officers whose remuneration is drawn for them, that they receive such remuneration

Salary bill.

113. The essential feature of the salary bill is that each officer is permitted to draw his pay month by month on a separate bill. A gazetted officer is so called because the orders intimating any change in his posting or status or the grant of leave to him are contained in the Government Gazette.

The system of audit adopted for such bills in order to check the title to the remuneration drawn is as follows :

All payments are recorded in an audit register in which one page is allotted to each officer. The main features of this register are two sets of cages, in one of which is entered the salary which may be drawn by the officer as varied from time to time by each order published in the Government Gazette or otherwise communicated, and in the other are recorded the amounts drawn by him month by month. There are subsidiary cages for the record of the :—

(1) Government orders authorising each alteration of salary.

- (2) Particulars of the officer's various appointments or of any leave granted to him.
- (3) Explanations of peculiar payments, which would include any payments not immediately identifiable by reference to the entry in the salary column.
- (4) Amounts of salary exempted from income tax
- (5) Particulars of objections raised

It is apparent that the most important part of the audit is the record of each entry in the cages for salary permissible. Each alteration must be based on an order published in the Government Gazette or otherwise communicated, and the various audit rules have to be applied carefully in determining the salary permissible in accordance with the orders passed by Government. Every alteration of salary, therefore, has to be passed by the gazetted officer in charge of the section. At the same time an intimation is sent to the officer concerned, and to the officer in charge of the treasury at which he draws his pay, intimating the amount which he may draw in accordance with that order of Government.

114. The orders passed by Government have first to be checked by the audit office in order to see that they are admissible. In some provinces it is the custom for Government to send the orders in draft to the audit office so that they may be checked before issue. The main portion of this check is carried out by means of the scale register in which is recorded the number of posts sanctioned in each grade of the service and the officers on duty month by month in each grade. The entries in this register have to be revised whenever an event occurs which takes an officer out of, or brings him into, the scales, as for instance death, retirement, dismissal, resignation and departure on and return from foreign service, leave or deputation.

115. Finally a history of services is maintained for each gazetted officer in which is recorded his station, sub-

Scale register.

History of services.

stantive and officiating appointments, dates of alterations of appointment and all leave except privilege leave granted to him. On this record are based all calculations of leave and pension admissible

Audit of
establish-
ment bills.

116. The system of audit adopted for establishment bills is different. The unit here is not the officer but the section of the office in which he is working. In the establishment register, therefore, the main columns are—

- (1) Name of the section and of the appointments sanctioned therein
- (2) The pay of each post in the section
- (3) The order of Government prescribing any variation in the pay of the section
- (4) Monthly columns, in which are entered the amounts drawn for that section month by month

This method of audit is called sectional, while the method of audit applied to the bills of gazetted officers is called nominal. In reality it is not strictly sectional inasmuch as the pay sanctioned for each post in the section is shown separately. If the audit were purely sectional there would merely be a record of the number of appointments in that section and total pay sanctioned. This variation from strict sectional audit is necessitated by the rule that an officer is not permitted to grant to any subordinate a higher pay than that fixed for the appointment that subordinate is holding, so that the pay allotted to each post has to be entered in the register in order that the audit office may check that this rule is duly observed. To describe the actual entries which have to be made in the columns for amounts drawn, and the reasons for making each class of entry, would be to enter into an amount of detail which would be out of place in a manual of this description.

The experiment is now being made in some audit offices of auditing in full detail 50 per cent. of the establishment bills each month, precautions being taken to ensure that the bill of no establishment escapes detailed audit over a long period

X 117 The bill form in which a gazetted officer draws his salary needs little description. The essential details are the same as those contained in the authority (called the pay-slip) issued to him by the audit office. Salary and Establishment bill forms.

The main columns in the establishment bills are those in which are entered the name of each section and of each incumbent of a post, the name of each post in that section and a column in which is recorded, in separate entries, the pay, the acting allowances and the leave allowances drawn by each incumbent. There are subsidiary columns for pay, etc., held over for future payments, fines, other fund deductions and income tax. The officer signing the bill has to record certain certificates that salaries previously drawn have been disbursed and receipts taken (audit has to be satisfied with this as constituting check (b) referred to in paragraph 112 above), that any leave granted has been admissible, that all appointments and promotions have been recorded in the service books and that an absentee statement accompanies the bill, or that no person on superior service has been absent on deputation or suspension or on leave. This absentee statement is a most important part of the establishment bill. In it are shown the name and designation of each absentee, his pay, the nature of absentee allowance permissible, the name, designation and pay of the acting officer, and the acting allowance permissible.

X 118 These are the main documents to which the audit officer has to apply the rules as contained in the Civil Service Regulations and other authorised codes with regard to the permissibility of leave and allowances. Only a very

brief summary of the more important general rules can be given here

Leave.
European
and Indian
Services

119 Officers for the purpose of leave are divided into two services—European and Indian. Generally it may be said that gazetted officers come under the European Service Leave Rules if they belong to a service in which it is indispensable that a considerable proportion should be of European nationality. There are some services, however, in which the senior officers are given the benefit of the European Service Leave Rules, while the junior officers come under those relating to Indian Services.

A summary of the European and Indian Service Leave Rules is given below. The various kinds of leave are privilege leave, furlough with or without medical certificate, leave on special private affairs (hereinafter called special leave), extraordinary leave, and subsidiary leave.

Privilege leave may be prefixed to other leave, on condition that the total leave is not less than 6 months, and not more than—

(a) 6 months if special leave be added to it;

(b) 2 years if furlough be added.

(a) and (b) do not apply, however, if the leave be extended on medical certificate.

Privilege leave—An officer earns privilege leave to the extent of $\frac{1}{11}$ th of time on duty without interruption. Privilege leave taken is not interruption of duty but does not qualify for further privilege leave. An officer cannot earn or take on one occasion more than 3 months' privilege leave. If taken alone, the leave may be granted 6 months after return from privilege leave and 11 months after return from other leave. If taken in combination with other forms of leave, the limitations referred to in the preceding sentence do not apply. An officer draws full salary while on privilege leave, and local allowances if there be no *locum tenens* to whom such allowances are payable.

As regards other leave, a distinction must be drawn between the officers coming under the European, and those coming under the Indian Service Leave Rules

European Service Leave Rules

The maximum amount of furlough and of special leave with allowances admissible to an officer other than a member of the Indian Civil Service and a military officer, is six years

Furlough — An officer earns such leave to the extent of $\frac{1}{4}$ th of his active service. The amount due to him at any time is the amount "earned" less furlough and special leave with allowances previously taken

But some officers pass from the Indian to the European Leave Rules. In their case the amount due is $\frac{1}{8}$ th of active service under Indian Leave Rules less furlough or special leave previously taken. Leave on medical certificate does not reckon as service qualifying for furlough or as furlough taken, but it enters into the calculation of furlough due [Article 305 (a) (ii), Civil Service Regulations]

Furlough for not more than 2 years may be granted to an officer who has rendered 3 years' continuous service.

(a) On medical certificate unconditionally

(b) Without medical certificate provided —

(i) that the furlough be due,

(ii) that he has rendered not less than 8 years' active service;

(iii) that not less than 18 months have elapsed since his return from privilege leave of over six weeks' duration, or from combined leave which does not interrupt continuous service (Article 22, Civil Service Regulations) if the privilege leave portion of that leave was over 6 weeks

- (iv) that the total number of officers absent on furlough and special leave does not exceed the limit, if any, fixed by the Government of India

[There are also rules to determine the priority of claim if proviso (iv) applies.]

To an officer who has not rendered 3 years' continuous service furlough may be granted on medical certificate as follows :—

(a) if the furlough due exceeds a year—to the extent due not exceeding 2 years ;

(b) otherwise—for not more than 1 year.

Furlough may be extended, but the rules on this subject need not be detailed here

For the purpose of calculating leave allowances furlough is divided into "ordinary" and "other" Any leave due up to a maximum of 2 years on each occasion is treated as "ordinary," and for this the leave allowance is half average salary subject to certain maxima and minima

For "other" furlough the leave allowance is £480 a year paid at home or Rs 400 a month paid in India, or in either case $\frac{1}{2}$ of average salary, whichever is less, but subject to certain minima if granted on medical certificate or on account of ill-health.

Special leave may be granted at any time for not more than 6 months at intervals of not less than 6 years' active service. If an officer who has already taken special leave under the Indian Service Leave Rules, afterwards comes under the European Service Leave Rules, he can again take special leave without regard to this limit. For the first 6 months the leave allowance is the same as for ordinary furlough. Thereafter the leave is without pay.

Subsidiary leave is not sufficiently important to warrant detailed description.

Extraordinary leave without pay may be granted when no other kind of leave is admissible.

Indian Service Leave Rules.

Leave on medical certificate may be granted for 3 years in all, but not for more than 2 years at a time, and not out of India more than twice

Special leave for 6 months may be granted to an officer who has not had furlough and may be repeated after intervals of 6 years.

Furlough may be granted as follows :—

- (1) The aggregate amount of furlough and special leave admissible is 2 years
- (2) Service for furlough counts from date of return from last special leave.
- (3) 18 months must elapse after the expiry of any leave containing over 6 weeks' privilege leave
- (4) Subject to these conditions, not more than 1 year may be granted after 10 years' service or not more than 2 years after 18, and thereafter the balance, until the limit in (1) is reached, at intervals of not less than 8 years.

Leave allowances.

(a) *On medical certificate*—half average salary for the first 15 months of each period, but not for more than 30 months in all : for the remainder $\frac{1}{4}$ th average salary.

(b) *On furlough or special leave*—half average salary.

Half and quarter average salary are subject to certain maxima and minima.

(c) *Leave without allowance* may be granted as 'under the European Service Leave Rules

It is hoped that all these leave rules will shortly be simplified.

Allowances. 120. The fundamental basis of an officer's allowance is his pay, that is the amount fixed as the pay of the post he holds substantively. Those officers in India, however, who are not on a time-scale often receive additions to their pay in the shape of acting or charge allowances and the word "salary" is used to denote the sum of pay and acting or charge allowances. In the Audit Resolution, however, the wider term "remuneration" is used and that word includes, besides monthly substantive pay or salary, all payments to officers from general revenues or from local funds administered by Government with certain exceptions of which the most important are local allowances granted on account of the unhealthiness or expensiveness of particular localities (called "compensatory local allowance"), exchange compensation allowance, travelling or conveyance allowances, house rent allowances or grant of free quarters, and non-recurring honoraria.

Acting appointment "Acting allowance" is the allowance given, in addition to substantive pay (if any), to an officer who is appointed to officiate in an appointment of which the holder is an absentee or which happens to be vacant

Provisional appointment If an officer is transferred to duty which is such that he retains no connection with his own appointment and which there is reason to believe will not terminate within three years, the Local Government may, if it thinks fit, suspend his lien upon his own appointment altogether, and fill up that appointment substantively, reserving only the right to reverse the arrangements thus made in case the absent officer at any time reverts to his original appointment. Such an appointment is called a provisional appointment

Sub. pro tem appointment. An officer may be appointed substantively *pro tempore* on full pay, without prejudice to the lien of the absentee, in place of—

- (1) an absentee who draws no part of the pay of his appointment ;

- (2) an officer holding a temporary appointment or on deputation, if the temporary appointment or deputation is for six months or more

The full pay of an officer thus appointed substantively for a time may, in like manner and upon the same condition, be given to a substitute similarly appointed.

It is important to remember that the status of an officer appointed substantively *pro tempore* is that of an acting officer

121. The ordinary rule with regard to acting allowance ^{Acting allowance.} is that it shall be one-fifth of the pay of the appointment or grade in which the officer is acting. In the case of the Indian Civil Service and other special services this rule applies but the acting allowance may not be less than—

- (i) two-thirds of the difference between the pay of the appointment or grade and the pay of the officiating officer ;
- (ii) or, subject to the limit of maximum salary (*i.e.*, the pay of the appointment in which the officer is officiating), Rs 200

There is also a very important proviso as regards the salary of an officer officiating in an appointment the pay of which is less than Rs 100. In that case the absentee's allowance must not exceed the difference between the pay of the absentee and the sum of the acting allowances paid in consequence of the absence, except when, in the resultant acting arrangements, an officer who has no substantive appointment is given more than half the pay of the appointment in which he acts ; in which case the excess over half pay granted to him may, at the discretion of the Local Government, be disregarded in calculating the sum available for the leave allowance of the absentee and the acting allowances paid in consequence of his absence.

This proviso is not enforced in the case of officers in superior* service on privilege leave.

There are, of course, other rules with regard to officers of particular services which cannot be mentioned in a brief summary such as this, and reference must be made to the detailed rules in the codes.

HONORARIA. 122. An important set of rules is that connected with the acceptance by Government servants of honoraria. The general principle has been laid down that the whole time of a public officer must be held to be paid for by the State, and he may be employed in any manner required by proper authority within his own branch of duty, without claim for additional remuneration, whether the services rendered are such as would ordinarily be paid from General Revenues or from a Local Fund.

All Municipalities and Funds administered under a Local Government, inclusive of Port Trust Funds and Wards' Estates, are entitled to the gratuitous advice and services of officers of the Public Works Department, and of all Government medical, sanitary and educational officers whenever these can, in the opinion of the Local Government, be given without detriment to the public service.

An honorarium may be granted to an officer from General Revenues or from Local Funds when the head of his department certifies that the work is special and outside the ordinary course of the officer's duties and that it does not interfere with the discharge of those duties.

Any officer may receive a fee from a private person or private body, or a public body whose funds are not administered by the Government for work done for it : provided—

- (1) he has undertaken the work with the knowledge and sanction in writing of the head of his department :

* For a definition of superior service see paragraph 135 below.

- (2) that the head of the department certifies that it can be carried out without detriment to his official duties ; and
- (3) that the acceptance of a fee and the amount of the fee are approved by proper authority.

CHAPTER 14.

Travelling allowance.

Main points
of Audit.

123. The main points which have to be attended to in the audit of travelling allowance bills are .—

- (1) that the journey was actually performed ;
- (2) that it was necessary ;
- (3) that it was performed as expeditiously as possible ;
- (4) that no bill has been submitted for it before ;
- (5) that the amount drawn is correct

Rule (5) involves a check of distances in those cases in which the travelling allowance depends upon the distance travelled.

Duties
imposed on
Controlling
Officers

124. Now it is evident that points (1) to (3) are much the more important and that the audit officer at the capital of the province has no opportunity of checking these points adequately. The duty of applying these checks, therefore, is imposed upon the controlling officer who is either the Collector or a superior departmental officer

The choosing of the controlling officer in respect of each office is a matter of importance, and Local Governments realise the necessity of choosing as a controlling officer that responsible authority who is in the best position to exercise a proper check under these three heads

Ten day halt
rule

125. The rule that a daily allowance may not be drawn for more than ten days of a halt at once at one place is framed to ensure due expedition in a journey and because expenses usually decrease as the length of a halt increases. Controlling officers are not as a body given any power to

modify this rule. General exemptions have to be sanctioned by the Local Government; while selected officers are given the power of granting exemptions in respect of individual journeys.

126. The duty of check of distances is entrusted both to the controlling officer and to the audit officer. This dual check involves much duplication of work and can be justified only if it be essential. But it is found that, even if they take the greatest pains, the check which audit officers can exercise is often unsatisfactory, because it is impossible for them to know the actual distance of a journey, say, between two small villages in a district many miles away from headquarters. Controlling executive officers must be better able to check distances in such cases and the only justification for the dual check must be the fear that controlling officers do not always exercise a proper check on their own account. Those controlling officers who wish to be relieved of this duty argue that this is a matter of detail with which they ought to have no concern, but the reply to this argument is that they are the only authorities who can exercise the check satisfactorily if they will.

127. Demands for travelling allowance are submitted on bills which are drawn up in such a way as to give all the information necessary to ensure the proper check of the bill. Thus they show the name of the officer, his head-quarters, the purpose of the journey, the date of the journey, the route by which it is performed, the distance travelled by road (whenever it is necessary to enter that), railway fare, steamer passage money, number of days halted. These bills are submitted in the first place to the controlling officer. Some controlling officers supplement the entry in the column for the "purpose of journey" by requiring diaries or journals to be submitted by officers indicating what those officers have done during each tour. The controlling officer, having

countersigned the bill as a token of his check, returns it, and the officer who performed the journey then obtains payment of the bill at the treasury.

Audit.

128 On receipt in the audit office the bill is audited either by the district auditor or in some cases in a separate section which deals solely with travelling allowance bills. Check No 4, *i.e.*, to see that the bill is not drawn twice for the same journey, is applied by means of a register in which bills drawn by the same officer or by the same establishment are entered in sufficient detail to render this check possible

The experiment is now being made of auditing each month in full detail 50 per cent. only of the travelling allowance bills of third and fourth class officers

Classification of Officers.

129. For the purpose of travelling allowance rules officers are divided into four classes.

The main criterion for classification is the pay or maximum pay of the appointment in which the officer is doing duty. Where this exceeds Rs 500, the officer comes into class I, above Rs 100 into class II. The fourth class comprises all officers in inferior service, while the third class includes the remainder

Officers of certain departments, however, are considered to be in class I or II, respectively, for the purpose of travelling allowance even although their pay or maximum pay may not, for the time being, exceed Rs 500 or Rs. 100, respectively.

Daily allowance.

130. The main item of travelling allowance is the daily allowance, *i.e.*, the amount which an officer draws each day that he is travelling more than 5 miles from his head-quarters.

An officer is allowed to draw mileage, however, instead of daily allowance when he travels more than 20 miles by road, and when he travels by road in continuation of a rail or steamer journey

When travelling by railway an officer is entitled for the journey, instead of daily allowance, to double the fare of the class in which he is permitted to travel, which varies according to the class into which he falls for the purpose of travelling allowance. An officer travelling by steamer is allowed, instead of daily allowance, the actual amount of passage money paid for himself and for a certain number of servants, but table money is deducted from officers in class I. The class of accommodation permissible on steamers also varies according to the class into which the officer comes for travelling allowance.

Rail and
Steamer
fares.

For each class of officer there is a separate rate of daily allowance and of mileage. In certain localities these rates are increased while special officers are also granted exceptional rates.

An officer who is provided with means of locomotion at the expense of State or by Local Funds may draw half the travelling allowance ordinarily admissible, or is subject to the deduction from his travelling allowance of such hire, as may be determined by rule.

Rates when
Government
supplies
means of
locomotion

Some officers have to do a considerable amount of travelling every year and in such cases permanent monthly allowances are granted in lieu of all other travelling allowances for journeys within an officer's circle of duty. Such allowances are given all the year round whether the officers are on tour or not. The Government of India have lately expressed their approval of the extension of this method of granting travelling allowance to any class of officers who may be considered by Local Governments to be performing duties which would justify the grant of such allowances.

Permanent
monthly
allowance.

Another modification of this form of travelling allowance is the conveyance allowance granted to officers who have a large amount of travelling at or within a short distance from

Conveyance
allowance

head-quarters, for which travelling allowance is ordinarily inadmissible.

Journeys on transfers For journeys on transfers the rates of travelling allowance ordinarily admissible are the same as for other journeys.

It has long been felt that these rates are inadequate in the case of transfers, and the Secretary of State has now been asked to sanction the grant, in addition to double rail, or single steamer, fare of free transport of —

- (a) Personal effects up to a maximum of 40, 20, and 10 maunds (for 1st, 2nd, and 3rd class officers, respectively)
- (b) Tents when not provided by Government (subject to certain maximum scales)
- (c) Horses (two for a 1st class, and one for a 2nd class officer) when the officer's duties involve touring or similar work necessitating his keeping his own horses and the transfer is for a distance exceeding 80 miles

Treatment of families for the purpose of travelling allowance Under the rules of the Civil Service Regulations travelling allowance is rarely granted in respect of families. The main exception is in the case of a non-gazetted officer who is transferred under the following conditions :—

- (a) His salary after transfer does not exceed Rs. 400 a month ;
- (b) the distance exceeds 200 miles ; and
- (c) the transfer is for a period exceeding three months.

In such a case the non-gazetted officer is also granted up to a certain limit the cost of carriage of the personal effects.

181. No attempt of course can be made in such a brief summary as this to give any idea of the various detailed

rules to be found in the 269 sections of the Civil Service Regulations which deal with travelling allowance.

It is desirable, however, to comment on the rule which says that "travelling allowance is given to an officer to cover the actual travelling expenses incurred by him in travelling in the interests of the public service. It is a fundamental principle that the allowance is not to be a source of profit, and save as specially provided in these regulations, no allowances are granted to meet the expenses of families of officers accompanying them when travelling on duty."

The theory of travelling allowance rates.

The first sentence of this rule is not meant to be applied in audit since the expense of journeys varies so enormously in different parts of India, and under different conditions in the same area, that it is impossible to fix rules which shall grant to an officer the actual expenses incurred by him on each journey he undertakes. The object of Government in fixing these rules has been to attempt, as far as possible, to give each officer for the travelling he has to perform such allowances as shall meet the expenditure which he has to incur on his journeys as a whole. The other 268 rules give in detail the allowances permissible in various circumstances and it is those rules which have to be applied and not this general principle.

Inapplicable in audit

132 No general set of rules can be framed which will meet all cases. Even if an officer were permitted to bill for actual expenses incurred, the difficulty would not be solved. For the travelling usually necessitates the permanent upkeep of means of conveyance for the officer and often of that for his baggage as well, and in such a case it would be impossible for the officer to distribute over a series of journeys this permanent expenditure. The question would also arise as to what were reasonable actual expenses. It is the numerous special rules necessitated by these varying con-

ditions which make audit of travelling allowances so difficult and here again, as in all other audit work, it is necessary to remind audit officers that when applying code rules the code itself must constantly be referred to. These brief summaries are not meant to take the place of a detailed study of the rules themselves, but to be merely the introduction to such a study

CHAPTER 15.

Pensions.

133 The essential points of the audit of pensions are to ensure :—

- (a) that the retiring officer is entitled to the pension he claims ;
- (b) that a pensioner is entitled to the pension he draws

Both these points are checked in the audit office

134 The title to the pension claimed is checked in the following manner :—

Shortly before a non-gazetted officer is due to retire he must submit to the authority, whose duty it would be to fill up his appointment, his service-book and a statement of his services. It is then the duty of that officer to check this record as far as possible and to submit it to the audit officer for comparison with the records in his office. The main source of comparison in the audit office is the annual list of pensionable establishments which has to be submitted by every head of an office to the audit office where it is checked with the sanctions recorded in the audit register. This preliminary verification is made in order to facilitate the check of the formal application which has to be made when an officer retires, so that there may be as little delay as possible in granting the pension, and to ensure that no officer inadvertently retires before he is entitled to a pension.

It is unnecessary for a gazetted officer to submit any preliminary statement for verification or any detailed list

of his service with his formal application inasmuch as full details are entered in the history of services, for the preparation of which the audit office is responsible.

135 The main check in the audit office is to see that the service rendered qualified for pension. For that to be the case the following conditions must be fulfilled.

Service
qualifying
for pension

The service must be under, and paid by, Government and the employment must be substantive and permanent. It is open to a Local Government to rule that any service or class of officer serving under it does not qualify for pension.

Qualifying service may be either 'superior' or 'inferior' Service on pay not exceeding Rs 10 a month, and service in any office which has been graded as inferior by the rule or practice of the Local Government, is inferior service. All other service is superior service. Except for compensation gratuity, an officer's service does not, in the case of superior service, qualify till he has completed twenty years of age. Service in the Police qualifies after the age of eighteen if pay on retirement does not exceed Rs 20 per mensem.

Forfeiture of
service

In certain cases service qualifying for pension may be forfeited. Resignation of the public service, or removal from it for misconduct, insolvency, inefficiency not due to age, or (in certain cases) failure to pass a prescribed examination entails forfeiture of past service.

An interruption in the service of an officer entails forfeiture of his past service, except in certain cases of which the most important are :

(a) authorised leave of absence :

(b) unauthorised absence in continuation of authorised leave of absence so long as the office of the absentee is not substantively filled :

(c) suspension immediately followed by reinstatement which need not be to the same office :

(d) abolition of office or loss of appointment owing to reduction of establishment

136 When the amount of qualifying service has been ascertained, those rules have to be applied which determine whether the officer is entitled to a pension and if so the amount permissible. The general rules, which do not apply to members of the Indian Civil Service and of certain other services, may be summarised as follows.

An officer in superior service may retire when he has completed 30 years' pensionable service. He may retire at 55 and must do so unless Government grant an extension. No extension is generally granted after 60. He may also retire on medical certificate at any age. Time spent on leave with allowances counts as service as follows :—

Summary
of rules
determining
amount
of pension

If the total service is not less than	HE COUNTS AS SERVICE A PERIOD OF LEAVE	
	Out of India not exceeding	In India not exceeding
Years	Years.	Years.
15	1	1
20	2	1
25	3	1
30	4	2
35	5	2

The amount of a pension is regulated as follows :—

- (1) for service less than 10 years, a gratuity not exceeding 1 month's emoluments for each completed year of service ;
- (2) for 10 to 24 years' service $\frac{1}{60}$ th of average emoluments, subject to a maximum of Rs 200, for each year of service ;

(3) for 25 to 30 years' service, $\frac{1}{2}$ average emoluments subject to a maximum of Rs 5,000 a year

Officers who have filled certain posts may obtain an extra pension of Rs 1,000 a year provided they have 3 years' effective service in such posts and have shown such special energy and efficiency as are deserving of the concession.

Average emoluments are calculated on those of the last three years of pensionable service.

Pensions paid in England are converted at the rate of 1s 9d the rupee

For inferior service after not less than 30 years' service, pension is allowable at the rate of half the pay drawn at retirement, or Rs 4 per mensem, whichever is less. A few servants are allowed higher rates than Rs. 4, but none above Rs 10 a month.

Pensions are calculated to the nearest anna

Authority
for pension.

137. No pension can be sanctioned (except in the case of certain classes of Police subordinates) until the audit office has stated that the amount which it is contemplated to sanction is permissible under rule. A copy of the order of sanction is then forwarded to the audit officer who verified the service so that he may check whether the pension granted is permissible. The audit officer then issues duplicate pension payment orders, one to the pensioner himself and the other to the Treasury Officer in charge of the treasury at which the pensioner wishes to take payment

Method of
pension
payment

138 Pensions are paid at treasuries, and every payment has to be entered by the Treasury Officer on both copies of the pension payment order. At the same time he takes the receipt from the pensioner and checks the identifying marks and the signature, or the thumb impression, with those recorded on the original order. Some pensioners are permitted to draw pension without personal application, but in such cases they have to forward life certificates with their receipts and also have to attend once a year for identification

Identification
of pensioner.

This identification of the person drawing the pension with the person to whom the pension was granted is, of course, the essential audit check and here again the audit office has to rely upon another authority for the due performance of the check.

X 139. The duty of the audit of pension payment in the audit office is simple in the extreme, inasmuch as all that the audit office can do is to see that the amount drawn is not greater than the amount sanctioned and that it is not drawn twice for the same month.

CHAPTER 16

Contingent Expenditure

140. Under this heading civil accounts group a number of payments of the most varying description. In fact under this category are included all payments made by civil officers to people not in Government service, if they do not fall under the heads Deposits, Remittance Transfer Receipts, or Supply Bills. It is, then, a little startling at first sight to find the general rule laid down that, subject to any orders of the Local Government or controlling authority, an officer is allowed to draw money from the treasury for contingent expenses incurred on the public service within the amount allotted to him in his budget estimates or otherwise. For ordinary expenses previous sanction is not required. It is for the Local Government to define the nature and limit of charges—

- (a) which may be incurred without previous sanction,
and
- (b) which require the previous sanction—
 - (i) of any controlling officer,
 - (ii) of itself

There is, however, one important proviso, *viz.*, that fixed allowances for contingent expenses which are drawn regularly irrespective of the actual expenditure incurred in any month, are not subject to any of the rules relating to contingent expenditure.

The consequence is that a very large number of rules have had to be promulgated by the Government of India and by the various Local Governments limiting the power of officers to incur contingent expenditure. The former are

contained in the Civil Account and other Codes issued under the authority of the Government of India. The latter are scattered throughout various departmental manuals, but are usually brought together in the manuals relating to the work of the various sections of audit offices

141. The main check over contingent expenditure is performed by the controlling authorities and at one time almost every item of contingent expenditure had to be countersigned. But now in nearly all provinces the following classes are to be found, *viz.*:—

- (a) Contract contingencies; those in respect of which Government have entered into a contract with disbursing officers that they shall be given a free hand provided they do not exceed the contract grant;
- (b) Audited contingencies; expenditure on which may be incurred subject to certain rates which have been prescribed by Government;
- (c) Special contingencies; which require special sanction of superior authority;
- (d) Countersigned contingencies; expenditure on which has to be accepted by superior authority, which acceptance is intimated to the account office by the submission of separate detailed countersigned bills under the procedure laid down in the Civil Account Code

142. This subject of contingent audit is a difficult one to deal with, because the classification of contingent expenditure varies considerably in the different offices, and because the chapter on Contingencies in the first volume of the Civil Account Code gives a very inaccurate conception of the prevalence of the countersigning system.

In some provinces probably as many items of contingent expenditure as possible have been brought into classes (a)

to (c). In other provinces it is possible that the number of items of contingent expenditure in those three classes could be increased with advantage.

Permanent
advance.

143 Nearly all disbursing officers have permanent advances, that is, a sum of money placed at their disposal to meet immediate needs. Such permanent advances correspond to an ordinary person's pocket-money. As far as possible all contingent expenditure is met from this permanent advance and whenever the advance requires to be replenished the disbursing officer has to submit bills to the Treasury indicating the nature of the expenditure which has depleted the advance.

Drawal of
money for
contingen-
cies.

144 Contract contingencies and audited contingencies can be drawn direct from the treasury on bills which, though not requiring countersignature, have to be supported by vouchers for expenditure in excess of Rs 10. Items falling under class (c) can be drawn on bills which have to be countersigned before presentation at the treasury. The bills for expenditure on items falling under class (d) are presented first of all in abstract at the treasury in order to replenish the advance, and subsequently detailed bills with all the vouchers attached are submitted to the countersigning authority for countersignature and for submission to the audit office with vouchers exceeding Rs 100. The audit office holds all amounts drawn on abstract bills under technical objection until all the vouchers and the countersignature of the controlling authority have been received in support of the expenditure.

Duties of
controlling
authority and
of audit
office.

145. It is the duty of a countersigning officer to see that the charges drawn in a contingent bill are of obvious necessity, and are at fair and reasonable rates; that previous sanction for any item requiring it is attached; that the requisite vouchers are all received and in order, and that the calculations are correct; and specially that the expenditure

has not exceeded, and is not likely to exceed, the grant of the particular district under the head concerned. If expenditure be progressing too rapidly, he should communicate with the disbursing officer, and insist on its being checked

✓ 146 It is important here to set forth the different duties of the controlling authority and of the audit office.

These authorities have to satisfy themselves

Points of check	Controlling authority	Audit Officer
(1) Vouchers	That he has received all above Rs. 10 that they (specially those between Rs. 10 and Rs. 100) are correct	That he has received all above Rs. 100 and that they are correct
(2) Necessity of expenditure	That it was necessary	That it was not of an unusual nature or outside the ordinary course of administration
(3) Rates	That rates are fair and reasonable	That there is no special reason to suppose that the rates are extravagant *
(4) Progress of expenditure	That expenditure is not likely to exceed grant	That expenditure is not likely to exceed grant.

As to the amount of work imposed upon controlling authorities under these rules the following quotation may be made from a letter by an Accountant General :

“In the case of departments, such as Jails, Police, and Medical, the contingent expenditure includes very large sums under Supplies and Services for feeding of prisoners and patients and the supply of rations, clothing, arms and accoutrements to very many thousands of policemen, and

*If he has reason to suppose rates are extravagant he should act as indicated in chapter 8, paragraphs 78 and 79, above

“the heads of these departments have practically got subsidiary audit office establishments under them to enable them to exercise a detailed control over this very large expenditure. Countersignature in the case of these departments at any rate does imply a very large amount of detailed check of which the audit office is thereby relieved.”

147. The work of the controlling officer is much more onerous than that of the audit officer ; it is more difficult to decide whether expenditure is necessary than whether it is unusual, and whether rates are reasonable than whether they are apparently extravagant. At the same time the audit officer also has to determine as far as possible whether the controlling officer is doing his work adequately, and this is, perhaps, his most important duty in respect of contingent expenditure

Importance
of Contingent
Audit

148 Audit in India would probably benefit if more attention were paid to the scrutiny of contingent expenditure and less to the minute examination of establishment and travelling allowance bills. Gazetted officers themselves should scrutinise bills over a certain amount, and a certain proportion of the other bills as well.

Registers
used in
Audit

149 Audit derives little assistance from elaborate registers in the check of these bills. Registers are used for two purposes : to check the progressive expenditure against the allotment ; and to check any expenditure requiring special sanction against the order of sanction. The forms used for these purposes are too simple to require explanation

CHAPTER 17

Expenditure on Works

150 The extreme importance of this class of expenditure can be gauged from the fact that the total expenditure in India in 1912-13 recorded under the major heads referring to Public Works, Irrigation and Railways amounted to over 52 crores of rupees, and the larger portion of such expenditure was on works. It will not be possible, then, to do more than touch the fringe of the subject in this manual.

151 There are always more demands on the public purse than can possibly be met, and therefore the advantages to be derived from compliance with each demand have to be weighed against the probable cost in order to select those on which Government money can be used to the best advantage. Now the direct cost of a new establishment can be calculated accurately, its indirect cost with reasonable accuracy: and the cost price of anything to be purchased as contingent expenditure will be known within reasonable limits at the time the purchase is sanctioned.

But a building for, say, a hospital can be erected for one lakh. But 40 lakhs can also be spent on its erection. Government may be quite willing to spare one lakh, but extremely reluctant to spend 40 lakhs.

Thus the Public Works Department Code states in paragraph 1922 that "It is a fundamental rule that the commencement of the execution of Public Works shall not be definitely authorised by any authority whatever unless a properly detailed design and estimate have been prepared and approved. Excepting with regard to certain classes of

Importance
of such
expenditure.

Need of
preparation
of estimates
before
sanction.

The rule on
the subject.

“petty works for which special rules are provided” (and, on railways, works falling under ordinary maintenance), “and in cases of real emergency to be immediately reported and explained to the authorities competent to accord administrative and technical sanction this injunction may not be infringed.”

Degree of
infringement
of rule.

That the Audit Department has much steady work before it to enforce the observance of this rule is shown by the fact that in 1912-13 the amount placed under objection for non-observance of this rule in the Buildings and Roads and Irrigation branches was over 10 per cent. of the total works expenditure of the year in those branches.

Administra-
tive and
technical
sanction.

152. A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and finally to be approved by, the authorities for whom the work is to be erected. This approval is called “administrative sanction.” And, in the rather clumsy words of the Code, it “relates solely to the financial aspects of the proposals, and to their necessity and suitability having regard to administrative requirements.” In other words, the administrative experts have to say—this work meets our requirements, and we do not consider the cost, as shown in a preliminary estimate accompanying the design submitted for administrative sanction, will be extravagant.

Once this is obtained the detailed estimate is prepared which has to receive the “technical sanction” of the Public Works Department. If, in working out the detailed estimates or during the construction of the work, it is found necessary to make any important deviation from the design to which administrative sanction has been obtained, such sanction has also to be obtained to the deviation.

Supplemen-
tary and
revised
estimates.

153. Even with the greatest thoughtfulness and accuracy it is not always possible to foresee everything that will be required or to frame an estimate which will not be exceeded

Therefore we have the rules "Any development of a project thought necessary while a work is in progress, which is not fairly contingent on the proper execution of the work as first sanctioned, must be covered by a supplementary estimate, accompanied by a full report of the circumstances which render it necessary" (P. W. D Code, paragraph 674.)

"A revised estimate must be submitted when the sanctioned estimate is likely to be exceeded by more than 5 per cent" (P. W. D Code, paragraph 675)

But the extra expenditure which has to be covered by a supplementary or revised estimate is often incurred before sanction can be obtained to these estimates. This nullifies the value of such estimates and, therefore, we have the rule "Should it appear probable that it will be necessary to submit a supplementary or revised estimate, or should material deviations from the original proposals appear likely, even although the cost of these may possibly be covered by savings on other items, a report should immediately be submitted to the sanctioning authority explaining briefly the necessity for the supplementary or revised estimate (or the deviation*) and stating the probable excess" (P. W. D Code, paragraph 675A) ^{*Should be added.}

This rule was introduced at the instance of the Secretary of State, who has devoted great attention of late years to this question of excesses over estimates, and its importance is manifest.

154. Finally, for all works Completion Reports are prepared—in details of sub-heads when the estimate has been exceeded by over 5 per cent and when the expenditure has been recorded by sub-heads. Excesses which have not been regularised before have to be sanctioned by competent authority on these Completion Reports. ^{Completion Report.}

155. Works expenditure involves materials and labour. Materials may be supplied from stores or bought for the ^{Audit of Works Expenditure.}

work, or provided by the contractor. Store accounts are dealt with in paragraph 162 and chapter 18 below. Work may be carried out by daily labour, by piece-work (*i.e.*, work paid for at a fixed rate) or by contract. The last should be entered into in writing and should contain stipulations as to the quantity of work to be done and the time within which it is to be completed. Most contract work is carried out by petty contractors who cannot wait for lump sum payments and are therefore paid periodically according to work done up to date. Thus, whether work is paid for by contract or at piece rates, prompt measurement is essential, and of course, measurement of work done is the most essential check in the audit of works expenditure. This check is conducted entirely by the executive. It would be impossible for audit to take any part unless they had a staff of measurers in every division in India to make the original measurements, or a staff in each province to tour throughout it checking measurements. The sole check over these initial measurements is exercised by the Executive or Superintending Engineer whose expert knowledge enables him to detect any very gross over-measurement on inspection of the building and comparison with the Completion Report which indicates the work paid for.

156. But executive authorities do not always realise the extreme importance of accurate measurement. There is always a rush of expenditure in March, the last month of the financial year, and cases have occurred in which payments have been made on measurement reports submitted by subordinates whose journals, in which they record work done day by day, indicate that, on the day on which the measurement were alleged to have been made, they were miles away from the site of the work. Such measurement reports can have little value, and, if audit detects such cases at inspections, prompt notice should be taken of them.

157. Audit of Public Works expenditure falls under Audit. three heads :—

- (a) audit in the central office ;
- (b) audit by the Accountant in the divisional office ;
and
- (c) test-audit at the annual inspection of the divisional office

158. The audit of work expenditure in the central office ^{Central Office.} is, in the words of the Code (paragraph 1445), conducted with reference to—

- (1) the sufficiency of the authority for incurring the expenditure :
- (2) the propriety of the charge as against the works and services to which allocated :
- (3) the reasonableness of the charge : and
- (4) the proof of payment to the correct individual

(A) The first check consists in seeing that an estimate sanctioned by competent authority exists for each work, and that funds have been specifically allotted for it, before any expenditure is incurred in its execution. For this purpose the authorities sanctioning estimates and appropriations send returns periodically (usually monthly) to the audit office showing the sanctions accorded. These returns are first checked to see that the sanctioning officers are acting within their powers and they are then posted in a simple form of audit register. The expenditure incurred on each work month after month is then posted against the sanction when the monthly accounts are received and a comparison is made between the sanction and the total expenditure. Excesses over estimates or appropriations are placed under objection until the necessary sanction is accorded.

(B) The second check consists in the examination of the charges to ensure that they have been incurred in pursuance of the precise objects for which the estimate was intended to provide. This check cannot, however, be exercised to the full extent in the central office as the details of the estimates, which define the objects on which expenditure is to be incurred, are not available there

(C) The third check is described in Chapter 8, paragraphs 78 and 79 above.

(D) The fourth check consists mainly in seeing that a properly receipted voucher is sent for every payment. The responsibility for making payment to the person entitled to receive payment is left to the paying officer as in the case of almost all payments not made by the audit office direct.

(E) Besides these checks the arithmetical calculations in 25 per cent. of the bills are checked in the central office—a percentage check only being exercised as the Accountant in the divisional office checks all bills completely.

**Divisional
Office.**

159 A trained Accountant who forms part of the Accountant General's establishment is attached to each divisional office. His main duties are to compile the accounts and assist the Executive Engineer in all account matters, but he has also certain audit functions which, though not specifically defined anywhere, are tacitly understood in practice. To call the check thus exercised audit is not perhaps entirely correct as he cannot take any action if the Executive Engineer over-rules him. He is, however, expected to advise the Executive Engineer on these points, and at inspections, if irregularities are found, he is held responsible unless he can show that he brought them to the notice of the Executive Engineer.

Besides the check on initial accounts, the checks which

an Accountant exercises may be held to fall under four classes—

- (1) arithmetical check ;
- (2) check with estimates ;
- (3) sub-head audit ;
- (4) check with contracts.

Points (1) and (2) have already been referred to above. All bills are arithmetically checked by the Accountant and he has also to see that no charges are incurred which are not provided for in the estimates without proper sanction

(3) This check was exercised in the audit office until 1888 when it was transferred to the divisional office on the recommendation of the Public Works Accounts Committee. The accounts of all major works, *i.e.*, original works costing over Rs 5,000 are recorded by sub-heads, *i.e.*, items of work, such as brick work. The powers of an Executive Engineer are limited with regard to excesses over sub-heads and the Accountant has to see that the requisite sanction is obtained whenever the expenditure on a sub-head is exceeded

(4) Most of the payments in the Public Works Department are made to contractors, and it has to be seen that the rates at which payments are made are not in excess of those provided in the contracts. This check can be exercised only in the divisional office as the contracts are not sent to audit

160 The above are the checks which an Accountant exercises on the bills sent to the audit office. Besides these he is entirely responsible for the correctness of all muster rolls and vouchers below Rs 10 which do not come to the audit office at all

161 At the annual inspections, the work done by the Accountant is test-checked—a few bills being compared with estimates and contracts, the Registers of Works being checked to see that prompt action is taken when excesses over

Check at inspections.

sub-heads occur, and the muster rolls and vouchers for less than Rs 10 of a single month being completely checked.

Stock.

162. In the Public Works Department the audit of stores accounts is not very elaborate and mainly consists in seeing :—

- (1) that the stock balance of a division does not exceed the limit prescribed by Local Government ;
- (2) that the half-yearly quantity accounts work up to the value balance as per accounts at reasonable rates (*i e*, rates not differing largely from market rates) ; and
- (3) that stock is counted every year and that the quantity counted agrees with the quantity balance in the Executive Engineer's books

Audit of receipts.

163 Besides the audit of expenditure, the audit offices also conduct the audit of a portion of the receipts in the Public Works Department—mainly of rents of residential buildings

In auditing rents it has first to be seen that the assessments are correct, and next that the rents assessed are realised

The first portion of the audit is conducted as follows :—

What are called “data” statements, showing the capital cost, the estimated expenditure on repairs and the rents proposed to be fixed in accordance with rules, are sent up for sanction through the audit office The audit office checks the capital cost, sees that the provision for repair charges is according to rules and is sufficient, and then sends up the estimates for sanction

The second portion of the audit is conducted when the monthly accounts are received. The assessments shown in the rent schedules are checked with the sanctions and it is seen that the recoveries are according to the assessments.

CHAPTER 18

AUDIT OF RAILWAY RECEIPTS AND EXPENDITURE

A.—Expenditure on Construction

164 It has been stated in Chapter VII, paragraph 61, that a project estimate is prepared for each railway under construction

165 The project estimate, after it has received the sanction of Government, becomes the authority of the audit officer to pass expenditure on the project up to the amounts sanctioned under the several heads and sub-heads of the estimate, and it is his duty to bring to the notice of the Engineer-in-Chief, or other administrative officer in charge of the work, the fact that the provision under any head or sub-head is being or is likely to be exceeded immediately this becomes apparent. For this purpose he keeps a register in which is recorded from month to month the expenditure actually incurred against the sanctioned provision under any particular head or sub-head.

The Engineer-in-Chief has power, within certain limits, to transfer anticipated savings under certain heads to meet probable excesses under others ; but when this is not possible, and the total of the project estimate is likely to be exceeded, a reference must immediately be made to the Railway Board, accompanied if necessary by a revised estimate, with a full explanation of the causes which have led to the excess.

It is important that this should be done as promptly as possible, as the excess may require the sanction of the Secretary of State, and any delay in obtaining this might result in the stoppage of work and consequent loss to Government, or

in the Secretary of State's sanction being anticipated, a course to which he, as the supreme authority in whom is vested by statute the control over all expenditure, is much opposed except in cases of real emergency.

Audit against
Budget
grant.

166 In addition to the control exercised over the total construction expenditure on a railway by means of the project estimate, there is the further control to be exercised over the expenditure in any year with reference to the budget grant for the year. Here, as in every other branch of audit, the general rules of appropriation audit apply.

Distribution
of grant
between
England and
India.

167. The total grant for construction expenditure on a railway is divided into two parts—

- (a) the grant for expenditure in India;
- (b) the grant for expenditure in England.

The latter grant is hypothecated to meet the expenditure to be incurred in England by the Secretary of State, or by the Home Boards of Indian Railway Companies, on the purchase of stores, for which indents have previously been sent forward, or are likely to be sent forward during the year. It is necessary to control strictly transfers between the English and the Indian grant because of the effect such transfers have on the cash balances available in England and in India. Consequently transfers between these grants cannot be made without reference to the Government of India, or, if they exceed a certain figure, to the Secretary of State.

Over-Certification.

In the past there have been serious lapses on the grants for total Capital expenditure on railways, mainly due to the difficulty experienced in obtaining the full amount of the stores ordered from England within the period for which the funds have been provided. That period is, of course, the financial year at the close of which all grants lapse. With a view to obviating this difficulty the Secretary of State has recently tentatively approved a system of "Over-Certifica-

tion " of funds under which indents for stores may be sent forward up to a certain money limit in excess of the sanctioned English grant for the year, on the assumption that a proportion of the total indents sent forward will not be complied with during the year. The amount of such uncomplied-with indents is thrown forward to the following year and so becomes a first liability against the grant for that year

The Government of India have not yet submitted to the Secretary of State their final proposals on this point

168 There are two main objects in the close watch over expenditure against grant under the Capital account, *viz*, to ensure on the one hand that the total grant for all railways shall not be exceeded, and on the other to minimise the lapses on the grants of all the railways combined

The audit officer accordingly should not only see that the grant allotted to the railway is not exceeded, but should also bring to the notice of the administration the likelihood of any portion of the grant not being spent during the year, in order that the amount no longer required may be definitely surrendered to Government to be placed at the disposal of some other railway which is in urgent need of additional funds.

The means by which this object will be attained are a frequent and critical examination of—

- (a) The results brought out in the monthly statement known as Form D, which indicates as accurately as possible the progressive expenditure to date and the probable requirements
- (b) The progress of expenditure in England against indents sent forward for compliance

169. The expenditure brought to account by a divisional officer of a railway under construction is audited on lines which approximate very closely to those which have been

Audit of
expenditure
in a construc-
tion division.

indicated in Chapter 16 above in respect of expenditure brought to account in an ordinary Public Works division.

B.—Audit of expenditure on open lines.

170. The main cause of difference between the system of accounting for expenditure on open lines of railway and for all other forms of Public Works expenditure is that departmental officers have no concern with actual payment, which is done in the Examiner's office after pre-audit of the bills. Thus the duties of departmental officers on open lines are as a rule confined to seeing that claims are correctly prepared both as to quantity and quality of work done, that proper records are kept of the initial transactions, and that bills are punctually submitted to the Examiner for audit and payment

As in the case of lines under construction, before any payment can be made, the work in respect of which the claim is put forward must have been sanctioned by competent authority, and funds must exist in the budget estimates of the year to cover the charge

The bills received from departmental officers, consisting of salary and allowance bills, muster rolls, and contract certificates (or bills) for payments to staff, labourers, contractors, etc., are subjected to audit in much the same manner as such bills received from other departments are audited.

There is a modified form of audit of railway establishment bills, but the difference is not sufficiently important to warrant detailed explanation.

171 Before submission to audit, the bills, so far as they relate to Revenue charges, are posted into departmental allocation registers; and so far as they relate to Capital expenditure, into the detailed works registers maintained in district engineering offices. The object of these registers is to keep Heads of Departments informed of the progress of

expenditure against the estimates and grants, and they are required to be sent into audit once a month for reconciliation with the corresponding allocation and works registers maintained in the Examiner's office, which are posted from the audited bills

172 Workshop expenditure is recorded under suspense heads of the Capital account which is relieved only when actual issues are made to Capital and Revenue works and services. The primary business of the workshops is to manufacture articles for the Locomotive, Carriage and Wagon and other departments of the Railway No Profit and Loss account is kept, but the actual expenditure on manufacture, so far as this can be gauged, is transferred to the accounts of the consuming department concerned. Here the essential functions of audit are to ensure the correct calculation of the cost of each job, so far as this is possible without undue expense, and to watch the recovery of this cost from the department or person for whom the work is done Workshop expenditure.

173 Provision for expenditure on workshop manufacture is made in the annual budget and it is the duty of audit to see that the expenditure is kept within the Budget allotment. For this purpose the Examiner's office maintains a register showing the progress of expenditure, the assets and liabilities, and their probable effect on the grant.

All work done in a workshop must be carried out against a duly sanctioned estimate such as is required in the case of ordinary Capital and Revenue works. The estimates are, of course, treated purely as estimates, the actual cost of the work being charged to the departments concerned. When work is undertaken for private parties the amount of the estimate must be deposited before the work is taken in hand. Estimates for petty jobs are not necessary within certain limits fixed by the Agent

174. Workshop expenditure falls under two heads—

- (a) Cash outlay
- (b) Stores drawn from stock to be used up in the process of manufacture.

Every requisition for work is accompanied by a Workshop Order, so that the first essential account form is the maintenance of an "Order Book" showing work undertaken, the time taken in the completion of the job, and what the job has cost. The register is not submitted to the audit office, and should, therefore, be scrutinized on the occasion of each periodical inspection by an audit officer

Cash outlay consists of payments for labour only, the initial accounts of which comprise a daily muster roll, an allocated abstract of labour, and a register of unpaid wages. The muster rolls or labour pay-sheets are submitted to audit for payment, and the amounts due are carried into the allocated abstract of labour which shows the total daily expenditure against each particular job. The stores consumed in the process of manufacture are in a similar manner carried into an allocated abstract of stores used on each particular work.

The charges against each job are collected together in what are known as Outturn Statements

175. In addition to the direct charges for labour and stores, there are certain items of expenditure of a general nature, known as "general charges" such as wages of bhisties, sweepers, gate-keepers, etc., which cannot be directly allocated to any particular job. Expenditure of this nature is distributed proportionately over the several works entered in the Outturn Statement.

176. These statements are then "accepted" by the departments of the railway, or private parties, as the case may be, and the value of the work done is credited to "Workshop Suspense" on the authority of such acceptances. The

outturn statements are submitted to the audit office as vouchers for the credit taken in the monthly account current of the workshops.

177 Thus, audit has no means of verifying directly the cost of each work. It has to accept the distribution of the various charges over the various works vouched for by the executive and accepted by the persons for whom the work is done. It is able to exercise, however, a certain check on the total charges for labour and stores through the monthly workshop Account Current.

The balance of this Account Current represents the cash and stores expended on jobs awaiting adjustment. This balance must be analysed and full details posted in a register to facilitate a regular and systematic clearance of the "Workshop Suspense" Account. The proof of the balance must be complete at the end of each year and a certificate to this effect given in the Finance Accounts.

178. The audit of recoveries is comparatively simple as the vast majority of these are from other departments and the recovery in such a case is made by book adjustment in the account office. The rule of prepayment for work done for private persons simplifies the audit of cash recoveries.

C.—Audit of Railway Receipts

179. The revenue of railways is earned almost wholly from the transport of passengers and merchandise and is realised through the agency of booking and goods clerks employed at stations where the initial transactions are brought to account.

The rates and fares in accordance with which traffic is accepted have to be kept within certain maxima and minima fixed by Government.

In return for payments received railways issue tickets or vouchers, differing in form according to the description of

traffic carried, which entitle the holders to the services of the railway for the conveyance of passengers or goods. These vouchers form the basis of the railway accounts of receipts. Only one payment is made even if the services of more than one railway are utilised.

180. The essential duty of audit in this matter is simple. It has to see —

- (1) that the person to whom the service is rendered pays the proper amount :
- (2) that the railway servants receiving payment correctly account for the same :
- (3) that, if more than one railway renders the service, the receipt is properly distributed between them.

Check that
correct
amount is
paid

181 (1) In the case of passenger traffic the first duty is facilitated by having the fare printed on the ticket in most cases. In the audit office a certain percentage of the amounts entered on the blank tickets and on the goods vouchers are checked. It is further necessary, however, to ensure that no passenger travels without a ticket, that he does not travel in a carriage of a class higher than that for which he has paid, and that no goods are allowed to be removed from the railway until their carriage has been paid for. These have to be checked by travelling ticket inspectors and by officers inspecting stations. The former on some lines are under Audit, on others they are under the Traffic Department of the railway.

Check that
servants
receiving
dues
correctly
account for

182 (2) The second duty above-mentioned is performed by an elaborate system of accounting.

In the first place the tickets supplied to stations by the audit office are, as a precaution against fraud, machine-numbered in progressive series. The station master or booking clerk is held personally responsible for the stock of tickets in his custody and all missing numbers which cannot be properly accounted for are placed to his debit.

The most important original record at a station is the Trains Cash Book from which all other returns are compiled.

183. Tickets issued by station masters are paid for at the time of issue either in cash or by credit note. The amount so collected is entered, train by train, in the daily cash book of the station, the receipts being classified under the various descriptions of coaching traffic. On the departure of each train the booking clerk balances the cash book and compares the balance with the money in the till.

The cash is then placed in the safe, as receipts from each train must not be retained in the till after the cash has been checked with the Trains Cash Book.

The entire collections of the day, represented by coin, cheques, currency notes, etc., must be sent to the Cashier of the railway by the first train passing the station in which a travelling cash safe may be conveyed after the day's work is finished, and no balance of cash may be retained by a station master without special orders. The money is sent under cover of a remittance note and the Cashier's acknowledgment is recorded with the station counterfoil of the remittance note.

184. In addition to the "Trains Cash Book" a "Parcels Inwards" book is kept up to record all parcels received at a station for delivery whether the parcels are "Paid" or "To Pay". The receiving station is responsible for the recovery of all undercharges on parcels before delivery and the entry of the recoveries in the Cash and Parcels Inwards books.

185. The principal coaching returns submitted to audit are—

(1) Classification of Passengers

(2) Balance sheet

Monthly classification of passengers—This return shows the receipts of the month on account of passenger fares

collected. It is checked with the collected tickets sent to Audit, the main object being to see that all tickets have been properly accounted for. This is done by comparing the opening numbers of the current month's return with the closing numbers of the previous month's return. The highest number of each class of tickets issued is then obtained from the collected tickets, and the difference between the opening numbers and the highest numbers represents the number of tickets to be accounted for by the station

The Coaching Balance Sheet enables a watch to be kept over the prompt realisation of 'outstandings'. The debits consist of the totals of the various returns submitted by the station, and the credits of the cash sent to the Cashier. The balance represents the amount of outstandings to be collected by the station, such as freight and demurrage charges on undelivered parcels, etc. All errors discovered in checking, and the correct balance, are intimated to the stationmaster and the next balance sheet of the station has to open with the "audited" or correct balance

Check that each railway receives its proper share.

186 Although the form used and returns prepared in accounting for goods receipts may differ from those used for coaching the principles remain the same. The money collected for freight is entered in the goods Cash Book, goods are despatched under "Invoices" and the station is required to keep up "Goods Outwards and Inwards" books in which full particulars of invoices are entered. From these primary books returns are prepared and submitted to audit together with the monthly "Balance Sheet." The principles to be observed in checking Way-bills, Parcels Returns and the Coaching Balance Sheet apply equally to the checking of Invoices, Goods Returns and the Goods Balance Sheet.

Goods Traffic.

187 (3) *Division sheets*.—With reference to clause (3) of paragraph 180 above the earnings from traffic of every kind carried over two or more lines are divisible between

those lines, though only one actually receives the cash. In this division, as a general rule each railway is to receive the amount it would have received had the traffic been carried only over the portion of its own line traversed. Any exception to this rule is a matter of private agreement between railways, and will find a place in their respective working agreements. The division is made on what are known as "Division Sheets" exchanged between railway audit offices.

The division sheets comprise :—

- (i) Statements showing the proportions due to *Foreign Railways** only, on account of forwarded traffic in passengers, luggage, horses, carriages and dogs
- (ii) Statements showing the proportions due *both to Home and Foreign Railways†* on account of received goods and parcels traffic "Paid" and "To Pay"

The original way bills and invoices have to be attached to the inwards division sheets in support of the entries appearing therein.

Audit of Division sheets — When the inwards division sheets come to hand from foreign railways, they are verified with all relevant information which has been received from the stations on the home line.

The correctness of the original payments and the accuracy of the distributions between the railway concerned have already been audited in the audit office forwarding the division sheet, and several railways are now considering whether it would not be sufficient to audit only the share of each way bill and invoice due to themselves so as to save a considerable amount of double audit. There is no Clearing House in India unfortunately.

188. The Traffic Book brings together the whole of the Traffic Book. traffic earnings of a railway both local and foreign under

* The *Home Railway* is the railway preparing the division sheet in question.

† The *Foreign Railway* is that to which the division sheet is sent.

the several prescribed heads of the home line stations, with the various debits and credits of each, and also records the progress of adjustment of through traffic transactions with foreign lines

The Traffic Book is kept in two parts. The items comprised in the first part, representing amounts for the realisation of which the home line is responsible, are—

- (a) The entire local coaching and goods traffic
- (b) Outwards "Paid," and inwards "To Pay," foreign traffic

The postings in the first part are made from the station balance sheets

The second part relates solely to foreign traffic for the realization of which foreign railways are responsible

The items comprise—

- (a) Foreign outwards "To Pay" and inwards "Paid" traffic in parcels and goods
- (b) Foreign inwards coaching traffic under passengers, luggage, horses, carriages and dogs

The second portion exhibits the apportionments on account of the above traffic to the home line, and the debits and credits to the foreign lines. The entries for part II are taken from the division sheets. From the Traffic Book the figures of receipts under the prescribed heads of account are carried into the Journal, and finally into the General Books of the Railway

**Travelling
Inspectors of
Accounts**

189 The check exercised by the audit office is necessarily limited to an examination and comparison of the returns, etc., sent in by stations. In order to exercise a check over the initial accounts at stations which do not come under the scrutiny of audit a special staff of audit Inspectors is maintained. These Inspectors are constantly moving along the line and are required to devote their attention to seeing that

the books and records are kept in a proper manner, that the cash arrangements are in order, and that irregularities taken up are promptly attended to

D.—Audit by Government Examiners over accounts maintained by Companies working railways for Government.

190. The first railways built in India were constructed and worked by Companies under a firm guarantee from the Secretary of State of 5 per cent on the Capital and a fixed rate of exchange. In return he was to take a half share in the surplus profits

The guaranteed interest and rate of exchange resulted in considerable losses to Government. Advantage was accordingly taken of the provisions of the contracts under which these lines could be purchased, either by cash payment or by means of annuities terminable after a number of years, and all such railways are now the property of the State. Some of the purchased lines (portions of the North Western, Oudh and Rohilkhand, and Eastern Bengal Railways) are being worked by direct State agency; while the management of the others (East Indian, Great Indian Peninsula, Bombay, Baroda and Central India, Madras and Southern Mahratta, and South Indian Railways) has been entrusted to working Companies constituted under contracts the conditions of which are much more favourable to Government than those entered into with the earlier Companies. The position of Government with respect to these Companies is that Government are the owners and lessors of the lines, and the Companies are the working agents or lessees.

191. The broad features of the contracts entered into with such Companies are :—

- (1) That the Company shall have a small amount of share capital in the concern, on which interest at rates varying from 2 to $3\frac{1}{2}$ per cent is guaranteed by the Secretary of State out of the revenues of India

- (2) That the Company shall receive a share of the surplus profits earned by the Railway after meeting all payments for interest on the Capital at charge, such share being based either on some fixed proportion or on the amount of Capital contributed by Government and the Company, respectively ;
- (3) That all sterling transactions shall be taken to account at a rate of exchange of 1s. 4d. to the rupee
- (4) That the Company shall keep the undertaking, its rolling stock, etc , in thorough repair, and in good working condition, to the satisfaction of the Secretary of State
- (5) That on the determination of the contract Government will repay to the working Company the amount of its share capital at par

Points on which Government have to protect their interests

192 These conditions govern the nature of the control to be exercised by Government over the operations of such Companies. The Government, in addition to their interest in the correct division of profits, are concerned to see that the property, of which they are the owners, is kept in good condition and repair, and that all fresh capital put into the line is profitably and economically spent. The Companies, on the other hand, are concerned merely in making the most of the railway as a dividend earning investment during the limited period of their tenure

A close check and supervision is accordingly required on behalf of Government in the following directions :—

- (1) To ensure the proper upkeep and maintenance of the railway, so that, on determination of the contract, it may be handed back in as good condition as when it was made over to the Company.

- (2) To examine all proposals for fresh expenditure of capital and check any tendency to extravagance in that direction.
- (3) To watch the proper application of funds to Capital purposes for improvements, and to Revenue purposes for upkeep and maintenance
- (4) To verify the correctness of accounts and of the division of profits.

193. The first of these checks is exercised through the Government Inspector, whose duty it is to carry out a periodical inspection of the permanent way, works, rolling stock, etc., and to certify at the close of each half year that the undertaking has been kept in thorough repair, and in good working condition. Such an inspection is primarily required in the interests of the public safety under the Railways Act, but the certificate then given also serves the purpose of the clauses in the contracts relative to the maintenance and upkeep of the undertaking

The second check is exercised through the examination of estimates which, in the case of all but the smaller works not exceeding Rs 25,000 in cost, are required to be submitted for the sanction of Government

The third and fourth checks are exercised primarily by the Government Examiners of Accounts attached to the offices of the various railways worked by Companies.

194 Thus the audit at present exercised by Government Examiners is in those directions in which the interests of Government and of the Companies are divergent, and chiefly in regard to the correct allocation of expenditure between Capital and Revenue, on which too much stress cannot be laid, since improper loading of the capital account means that the Company gets an advantage on the Revenue side at the expense of a permanent burden cast upon Government. Again, it sometimes happens that there may be a conflict of

opinion between the Government Examiner and the Company's officers as to the interpretation of some clause in the contract which is obscurely worded. In all these matters he is the immediate representative of Government, who have to rely largely upon him for the due safeguarding of their interests. Thus his task is a very responsible one.

Branch Line
Companies.

195 The preceding remarks relate to Companies working State railways on behalf of Government. Another class of Company of more modern growth, the development of which is rapidly progressing, is the Branch Line Company, the transactions of which do not pass through the Government accounts at all, and in which Government are only indirectly interested to the extent of the guarantee of interest or rebate, a share in the surplus profits, and as being able to purchase the line on expiry of the period for which the contract is to run.

Such Companies are formed for the construction of small branches or feeders to an existing system, by which they are usually worked, the lines being the property of the Companies which build them.

196 The principal advantage from the Government point of view of the construction of railways under Branch Line terms is that the financing of such lines falls outside the Government programme of railway construction, thus enabling the funds available in any year to be entirely devoted to extensions on a larger scale of the existing railway systems owned by Government, or in carrying out the necessary additions or improvements to open lines.

Audit
control

197 The audit control exercised by Government over the transactions of these Branch Line Companies is not so stringent as over the large Companies working State railways. Thus only a periodical test audit is made of the accounts of the Companies, which are not certified to by a Government Examiner of Accounts in the ordinary way. Estimates for

all Capital expenditure are required, however, to be submitted for sanction by Government, in view of the Government's eventual interests in the purchase price of the line, and such estimates are dealt with in the same way as the estimates of the larger Companies working State Railways.

CHAPTER 19.

Store Accounts

198. Whenever valuables have to be retained for any time in the custody of Government servants store accounts have to be maintained. The essential points of such accounts are simple. The difficulties arise from the very large numbers of articles kept in a large store yard, and from the need of simplifying the procedure without lessening the efficiency of check

Essential
points of
Stores
Audit.

199. A Store Account is a record of all articles brought into, and sent out of, store, and the essential points to check are—

- (1) That every article purchased or otherwise obtained for store is entered as a receipt in the store account.
- (2) That the store-keeper holds a proper quittance for every article shown in the store account as issued
- (3) That the store-keeper can produce the articles shown in the store account as the balance in his possession.

200 The sellers of articles purchased for store may be relied upon to obtain payment from Government, and such a payment must appear as expenditure in some Government account. In the same way, if an article brought into store has been obtained from some other Government department, that department has obtained its quittance from the store-keeper and the transaction must appear in the departmental account and also in the cash accounts of the Store Department. Thus, for every article brought into store there must

be a debit in a Government account, and check (1) is exercised by tracing for every such debit an entry of the receipt of an article in the numerical store accounts.

✓ 201. Other points which have to be watched in audit in connection with purchases of stores are :—

(a) That the rates paid agree with those shown in any contract or agreement that may have been entered into for the supply of the stores.

(b) That there is proper sanction for the purchase

(b) involves the application of elaborate rules which the Secretary of State has sanctioned determining the classes of stores which may be purchased in India

/ 202 Check (2) is two-fold: it is a comparison of the receipts of the persons to whom the stores have been issued with the entries of issues. It is also a check to ensure that the persons to whom the stores have been issued are authorised to obtain those stores. Such authority is to be found in departmental orders

. 203 Check (3) is carried out by counting the numbers of each article in store and comparing the result with the account. A Collector counts his cash and his balls of opium in the treasury every month; he verifies his stamps once every six months. Similar verification occurs whenever there is a change of officers. The verification of stock in a large railway store yard is a big business, which is carried out by a permanent establishment of stock verifiers always at work. An important point to remember here is that the verification must take place in the presence of the officer immediately responsible for the custody of the valuables.

✗ 204. Very valuable work can be done by Audit in connection with stores. The value of the stores on the Government railways in India is over 9 crores of rupees (£6 millions), so that Government has had to borrow this sum of money in

Stores a look
up of capital
therefore to
be kept as
low as
possible

order to obtain these stores, and has to pay interest on this sum. Thus stores represent a lock-up of capital, which is always unjustifiable unless essential. It is, of course, essential to have always available for immediate use large quantities of railway stores; but the exact amount that has to be considered essential is always a matter for discussion, for departmental officers usually desire to have such an accumulation of stores that every possible eventuality can be met.

Again stores for which no use can be found ought to be sold before their value deteriorates.

Store
ledgers.

205 The Chief Examiner of each State railway writes an annual report on store balances in which he mentions any stores which, in his opinion, ought to be sold or otherwise disposed of, and any indents which he considers to have been in excess of requirements, and comments on the increase or decrease during the year in the balances and any need for further reduction.

206. A detailed description of the indent, by which an officer obtains stores from the yard, of the receipt he gives therefor, and of the ledgers in which the transactions are recorded, would be out of place in this manual. I must mention, however, that at present two sets of ledgers are maintained on railways—numerical ledgers in the store yards, in which transactions are recorded in numbers only, and value ledgers in the account office, in which transactions are recorded both in numbers and in values. These ledgers have to be periodically checked. Much labour will be saved if value ledgers only can be maintained by the account office in the store yard.

207 The receipts into stores are priced from the bills or invoices while the issues from stores are priced from the published price lists of the Stores Department. The price entered therein for any article is always based on the average price of that article as shown on the receipt side of the

priced ledger. But that average price—otherwise called the “Book Rate”—will vary with every fluctuation in purchase price, and it is impossible to revise the published price list according to every fluctuation of the “Book Rate” The price list, however, ought to be revised whenever the variation in price is serious

208. Stores are required, almost entirely, for railways for which Capital and Revenue accounts are maintained. It is often impossible to say whether the cost of the work for which certain stores are required will eventually be debited to Capital or to Revenue or to both; so all initial expenditure on the purchase of stores is debited to Capital Whenever, then, stores are issued to a work the expenditure on which is being debited, in the first instance or finally, to Revenue, the value of such stores has to be credited to the Capital and debited to the Revenue account. The value of these adjustments between Capital and Revenue is enormous, thus on the North Western Railway in 1912-13 it amounted to nearly 2½ crores of rupees It is important, then, that these adjustments should be recorded promptly and accurately in the accounts. Unfortunately, this rule is not always followed; the budget system tends to induce a desire to make the actual results of the year conform as closely as possible to the grant, and the accounting for these adjustments has sometimes been manipulated in order to work for this end. The general principle, of course, is plain The accounts should show the transfer from Capital to Revenue as having been effected on the date on which the material was issued from store, and any departure from this principle violates the fundamental rule of all accounts that they are to be a statistical presentation of fact

Adjustments
between
Capital
and Revenue
in Railways.

209. The evils of such manipulation have been recognised, and orders on the subject have been issued to all State railways, as follows :

Permanent-way Materials

(i) The charge to Revenue maintenance in the books of the railway for any month should be the cost of the materials actually placed in the road less the value of the materials taken out of the road (which should be immediately brought on to the Engineering Materials Account or returned to Stores) plus all labour.

Other Engineering Materials

(ii) Debits for the value of materials issued for renewals or repairs or for special works should be made in the accounts of the month in which the issues occur. Adjustments on account of credit to Revenue for the value of materials released from works should be made when the stores are actually brought on to the Engineering Materials Account, or taken over by the store-keeper and brought on to the stores books.

Workshop Expenditure.

(iii) All expenditure incurred during a month on maintenance and renewals of locomotive engines and machinery, and repairs and renewals of vehicles, should be charged off to final heads of the Revenue Account for that month, even though the job should not be complete.

(iv) Expenditure on important Capital Works for the Locomotive or Carriage and Wagon Departments, such as the construction or the erection of rolling stock or of plant, should be charged off monthly against final heads of accounts. Expenditure on less important Capital Works (*viz.*, works estimated to cost less than Rs 5,000) for the Locomotive or Carriage and Wagon Departments, and on works both Capital and Revenue for other departments of the home line, which, as a rule are of a trifling character, need not be charged off till completion of the work.

Adjustments between Capital and Revenue of Expenditure on mixed works.

(v) All items, specifically provided for in an estimate for mixed Capital and Revenue Works as chargeable separately to Capital or to Revenue, should be adjusted to such accounts as incurred.

(vi) Expenditure which is chargeable to Capital and Revenue in certain fixed proportions, *e g*, renewals of vehicles chargeable on the floor area basis, or renewals of permanent-way chargeable on the weight of material, should be proportionately debited monthly between Capital and Revenue

Note 1 — In cases where the charge to Capital on the proportionate basis is limited to the difference in cost, the above rules will apply until the limit chargeable to Capital is reached, and thereafter all further expenditure will be debited to Revenue

Note 2 — In the case of works estimated to cost not more than Rs 25,000, the debit to Revenue of its share of the cost of the work need not be made till completion of the work

(vii) The write back to Revenue of the original cost of works dismantled and replaced should be made on the completion of the new work

(viii) Fictitious adjustments should never, under any circumstances, be made for the purpose of utilising or working up to grants

CHAPTER 20

Special features of Post and Telegraph Audit.

210 Much of the expenditure in these departments is on account of salaries, travelling allowances, contingencies and works, and the audit procedure described in the relevant chapters above apply to such expenditure in these departments also

211. A brief reference is necessary to the audit of receipts and of Money Order and Savings Bank transactions

212. The stamps affixed to letters, parcels, messages, etc., represent 70 per cent. of the revenue of the Post and Telegraph Offices. Stamps are sold at the civil treasuries, either direct to the public or to vendors, and the necessary credits are afforded to the departments through the civil accounts. The duty of the departmental officers is confined, therefore, to seeing that stamps of the proper value are affixed to letters, parcels or telegrams and that all stamps are properly defaced with date stamps so that they may not be available for use again. In the case of the Telegraph Department, however, the check office at Calcutta undertakes a test audit of the messages transmitted throughout India, with a view to see that stamps of the proper value have been affixed and properly defaced

213 There are, however, several heads under which revenue is received in *cash*. These are rents and royalties for telephones in the Telegraph Department, and commission on money orders issued and postage realized in cash in the Postal Department.

214. Apart from Money Order and Savings Bank transactions, the following special duties are undertaken by Audit in connection with Post and Telegraph Accounts

Telegraph Department—

- (a) Dues on the 'Settlement Account' with other Telegraph administrations for traffic exchanged are calculated in the Telegraph Check Office
- (b) The Telegraph Department constructs and maintains all the telegraph lines and wires which run alongside the railway lines. The wires necessary for the railways for their own administrative telegraph system are leased to them, and rents are recovered from them at a fixed annual rate per mile of wire. The executive officers supply details of the wire mileage to the audit office which calculates the rent and arranges for the recovery of the revenue through the Exchange Accounts with the railways.
- (c) Payment for telegrams is made nearly always by stamps, and the same kind of stamps are affixed both to telegrams and to letters. The stamps are issued from Treasuries as postal stamps and it is impossible to maintain an accurate account of the use of such stamps for postal and for telegraph work respectively. Thus revenue obtained from the sale of such stamps is credited, in the first place, to the Postal Department and, in order to work out the amount of stamp revenue which ought to be transferred from the accounts of the Postal, to those of the Telegraph, Department in respect of such stamps, the Check Office estimates the message revenue for the year from an actual count of the value of the messages despatched for two selected weeks as indicated by the stamps affixed to them.

Postal Department—

- (a) Receipts on account of premia for Postal Life Insurance Policies are checked in a special branch of the central office under the Accountant-General, Post Office and Telegraphs. Audit is responsible for seeing that policies are issued strictly according to rules, that rates for premia are fixed in accordance with Government orders and are regularly recovered, that the rules governing lapses are followed and that final claims are fully audited before payment.
- (b) The Post and Telegraph audit offices undertake a test audit of service books. In Civil offices the executive officers are responsible for the upkeep of the service books of their subordinates, and certify on bills that leave has been granted strictly according to rules and noted in the service books. In the Post and Telegraph Department, however, the books are occasionally sent for by the audit office to check if leave has been granted according to rule. An audit of service books forms part of the duty of audit officers during inspections.

215. *Money Order Transactions.*—In the Cash Accounts received from head post offices, Money Order transactions are entered in lump under special debt heads. They are accounted for in detail in the audit office under a special procedure. Audit consists in seeing that for every money order paid there is a corresponding credit at some office of issue, and that there are no excess or double payments. Every head office sends periodically an Issue List in which the money orders issued by it and the commission received are entered in detail. The commission entries are fully checked in audit. Paid Lists are also submitted periodically in which all payments made are entered and supported by payees' receipts.

216. The enormous number of Money Order transactions renders it necessary to divide the vouchers into suitable compartments, for facility of audit, and to enable the balances outstanding to be verified with some degree of certainty. This is secured by regarding each month's issues as a separate unit. The payments, too, made in any month are separated according to the month of issue, and so separate Paid Lists are received according to months of issue for the payments of the month. There are thus twelve separate receipt and payment heads in the ledgers, and the credits on account of money orders issued in one month in a given circle form a distinct compartment in the accounts, and the payments or debits are classified against it. The balances of each month's issues are thus arrived at. The work has been satisfactorily performed when the particular money orders composing this balance can be identified.

217. The vouchers received with each Paid List are sorted and arranged according to office of issue and serial number, and then debit checking is undertaken. This consists in marking off, in the Issue List, every money order for which a receipt of payment is available. After the payments for three months have been thus debit-checked against the Issue List of any month, the outstanding unpaid items are extracted. The totals of these items, if the work were done accurately, should agree with the balance on the books for that month. In practice, however, there are always differences which are usually due to misclassification of money orders against months or circles of issue, or to errors in totalling. Steps are taken to secure a further agreement, and any differences that continue after a year are written off with the sanction of Government. A large staff was formerly employed for the reconciliation of the differences in the balances, but as the cost of the establishment was considerable and as the reconciliation was never complete, this procedure has been stopped. The unexplained differences are small when

compared with the volume of money order transactions, and are now written off

218. *Savings Bank Transactions.*—The transactions of Savings Banks, like those in respect of money orders, are entered in the Cash Account under a debt head and accounted for by a special procedure. The transactions are very numerous, there being more than a million and a half depositors with an aggregate balance of over twenty crores of rupees. Till recently audit offices were required to maintain personal ledgers in respect of each depositor, in which all deposits and withdrawals were posted, and head office ledgers, in which the monthly transactions of the head office were entered in lump. These ledgers were in addition to similar ones kept in the head post offices. The procedure has recently been altered, and audit offices no longer maintain personal ledgers for each depositor. The Post Office is now responsible for the details of the depositors' accounts. The head office ledger is still maintained, and, to ensure the accuracy of the local personal ledgers, post masters are required to submit monthly Ledger Abstracts, compiled from the personal ledgers, of the month's deposits and withdrawals, in which the totals are agreed with the figures shown in the accounts and with those shown in the head office ledgers.

219. Audit is confined to seeing that the details of the Journal of Savings Bank transactions received weekly from each head office work up to the totals entered in the monthly accounts, that all withdrawals are supported by receipts, and that transfers of accounts from one head office to another are properly accounted for.

220. Each post office compiles annually, from the personal ledgers, a statement of interest and closing balances on the 31st March. The balances have to agree with those in the books of the audit office. Differences are reconciled by the post master by means of the compilations made for the

monthly Ledger Abstracts. The unit of work is a volume of the personal ledgers, and the difference is traced into a particular volume and then the entries reviewed in detail. This work of annual agreement is of great importance, as it secures the correctness of the accounts of individual depositors.

221 The interest figures for the Circle obtained from these annual balance statements are passed on to the Comptroller, India Treasuries, for adjustment under Interest

222 *Profit and Loss Account*.—The Post Office and Telegraphs being quasi-commercial departments, the financial results of their working are reviewed in a Profit and Loss Account For this purpose account is taken, not only of the receipts and disbursements included in the accounts, but also of other *pro formâ* debits and credits in respect of services rendered without a money equivalent For instance, some *pro formâ* credits are those on account of the value of messages transmitted free of charge in the Telegraph Department and of free services rendered to Native States by the Post Office. Some *pro formâ* debits are the cost of the departmental pensions and gratuities which are finally charged in the Civil Department, and the cost of leave allowances paid in England

223 This review is more complete in the case of the Telegraph Department than of the Post Office For the expenditure of the former department is carefully allocated between Capital and Revenue, and a block Capital Account is maintained which shows the total amount invested in the Telegraph system. A comparison of the net profit in the Profit and Loss Account with the Capital at charge shows the rate of interest earned on the undertaking.

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