
Overview

IMPORTANT DEVELOPMENTS: POST 1990 PERIOD

The period covered in this history (1990 to 2007) marks an era of multi-faceted developments in C&AG's organization. Some of the more important of these are briefly indicated in this Overview, while a detailed account is contained in different chapters of this volume.

Nineteen nineties witnessed an IA&AD with vastly reduced portfolio of entitlement functions, since a considerable portion of these had already been transferred to the respective State Governments. However, State accounts that remained with C&AG even after the separation of Central Accounts in 1976, were a focus of attention in the 1990s both by C&AG Somiah who toured many A&E offices and gave personal directions to close the gap in timely finalisation of accounts and later C&AG Shunglu made the momentous decision to computerise the accounts from voucher level. After C&AG Kaul took over, more profound decisions have been taken in accounting field. The Government has decided to switch over to accrual accounts from cash based accounting system and entrusted the job of providing a framework and road map for the same to GASAB under the C&AG. The annual accounts of the State Governments namely Finance Account and Appropriation Accounts are now finalised and signed by the C&AG mostly by December which is well ahead of the ensuing budget session.

The period was characterised by very significant growth in computerisation and IT applications, tremendous improvements in infrastructure and other facilities, modernisation of office systems and procedures, and on organisation side a marked

decline in the men in position at non-supervisory levels—despite the Department taking over several entirely new kinds of audit functions and added responsibility in relation to PRI and ULB auditing and accounting activities.

Amongst the new audits that found way into IA&AD's audit literature were Privatisation Audit, Audit of Regulation, IT Audit, Technical Guidance and Supervision of PRI and ULBs in auditing and accounting matters. As a result of increasing number of projects funded through public private partnerships, auditing these projects itself was a novel audit exercise. Several audit paras on Build own and transfer (BOT), Build operate own and transfer (BOOT) and Build operate lease and transfer (BOLT) etc. were brought out in Audit Reports. This is yet a developing audit. Several new offices were opened during this period, mostly to cater to the demands of vastly expanding role of Audit vis-à-vis PRIs & ULBs and creation of new States. Some important institutions also came into being during this period. Of these, mention may be made of Institute of Public Auditors of India, International Centre for Information Systems and Audit, Government Accounting Standards Advisory Board and Audit Advisory Board.

New systems and procedures were introduced like system of peer review, strategic plan and perspective plan. Mission Statement as well as Vision Statement for the Department were issued and a trend towards aligning the prevailing audit practices in line with the best practices globally is the hallmark of present C&AG's period.

A development of great significance was the decision of the C&AG V.N. Kaul to issue the Regulations on Audit and Accounts in pursuance of powers vested in him under section 23 of the C&AG's (DPC) Act, 1971. This responsibility, discharged by the C&AG for the first time, was a very onerous and very important that would make matters clear and transparent as regards audit obligations and obligations of the Executive.

And finally the period will be known for SAI India's entry into international auditing scene for the first time with its election as member of the United Nation Board of Auditors in 1992. 1990s also marked SAI India making tremendous mark in international fora like INTOSAI and ASOSAI.

We shall deal with each of these very briefly here.

The foremost of these developments was the emergence of IT as the potent weapon for audit of computer systems, which were gradually replacing manual systems in most of the public sector

and Government organisations. Luckily, after making a slow start, rather early in 1970s, Audit Department picked up tremendously from the 1990s in this area to form a reliable and competent group of IT audit professionals who could develop IT systems and procedures and cope with the increasing workload on computerisation within the Department and carry out audit of IT systems. The progress is continuing and future holds very bright.

The next important thing that happened was in the arena of international audit. C&AG was elected for the first time to the Board of Auditors of the UN with effect from July 1993. He held the job for six years that is for two terms. SAI India's role as an Auditor of the UN has been widely acclaimed earning him a great reputation in international community at the UN. Subsequent to his election as auditor to the UN, C&AG also got audit assignments to conduct audit of several other international bodies like WTO, WHO and FAO etc.

The period also saw C&AG getting actively involved in the two global fora for SAIs namely INTOSAI and ASOSAI. C&AG is on the executive committee of the INTOSAI and is the Chairman of its Committee on IT Audit. He is the present Secretary General of ASOSAI.

In the field of Government Auditing, the era is marked by several very momentous developments. Most significant of these were the new audits that came up as a result of the major liberalisation reform that was ushered in 1991. Similarly, in the Audit Department, a wave of globalisation started. The IA&AD started its attempts to integrate with the best global auditing standards and practices. New areas of audit sprang up as a result of the Government policies on privatisation. Amongst these new areas were audit of privatisation, audit of regulation and objectively analysing the macro level financial management system of the Government. Performance auditing became more accentuated by completely rebuilding its structure and methodology and defining the tools more clearly and objectively. Emphasis on risk based auditing was just in tune with the changing environment. There was an emphasis on system analysis and in the commercial audit, the Audit Board mechanism for appraisal of Government companies and corporations was totally redesigned.

In the field of audit practices and procedures several new systems were tested—these included the concept of outsourcing of certain fieldwork to the reputed organisations for carrying out beneficiary surveys and impact evaluations studies. Also, the

department started hiring experts and consultants to help in complex technical areas. A more refined system of monitoring the field offices via a system of peer review was introduced. The department itself underwent a kind of peer review at the hands of consultants from NAO, UK.

This was also the era of building up several new institutions. An autonomous institution under the aegis of C&AG was set up in 1996 called 'Institute of Public Auditors of India' as a 'think tank' in audit, accounting and accountability matters. It was also to undertake research and development activities and for providing top edge consultancy services in the field of auditing and accounting and financial management areas. The C&AG set up an Audit Advisory Board in March 1999. It has 14 outside eminent members from fields such as academicians, engineers, retired civil servants, doctors, professionals, defence experts and other persons of repute apart from the C&AG's top management team viz. DAIs.

A highly significant development was the establishment of Government Accounting Standards Advisory Board (GASAB) in August 2002 with the support of Government of India with a view to establish and improve standards of Government accounting and financial reporting including enhancing accountability mechanism. It is a body of professionals drawn from various Central Accounts Services, Government of India, State Governments, professional bodies like Institute of Chartered Accountant of India (ICAI), National Council of Applied Economic Research (NCAER), Reserve Bank of India (RBI), etc.

In the field of accounting two developments, both epoch making, took place:

First, the voucher level computerisation was introduced w.e.f. 1999. The voucher level computerisation is now stabilised. Besides ensuring timely compilation of monthly and annual accounts, this also provides inputs for audit planning and central audit as well as generating a good deal of MIS data for the State Governments. Two, C&AG got involved in a major exercise of switch over to accrual based accounting system for which purpose GASAB was made the agency responsible for preparing a framework and a roadmap for transition as well as for recommending Accounting Standards for Government accounts.

This period would rank as one of the best in terms of improving the infrastructure of the Audit Department and provision of other facilities in working environment. The

transition to a clean building with modern gadgets and fittings is a testimony to the changing culture and work environment of audit offices. The latest in this direction is the construction of modular open sections in various offices of the IA&AD. The new building coming up for C&AG office, whose foundation stone was laid by President, promises to be a totally eco-friendly & trend-setting place.

Several new buildings of aesthetic quality and great functional efficiency have been added to the Department during this period. Mention may be made in this context of the International Centre for Information Systems and Audit (iCISA) building at NOIDA and National Academy of Audit and Accounts Building at Shimla.

The quest for excellence is now the overriding factor in the development of new audit practices in the IA&AD. In the coming years, the Audit Department is no doubt going to be a much more competent and efficient organisation.

The chapters that follow capture the details of most of these developments as they evolved over a period in the true tradition of a dynamic system.

A BRIEF SUMMARY OF HISTORY UPTO 1989¹

A. PRE-INDEPENDENCE DEVELOPMENTS

The Office of the Comptroller and Auditor General had its beginning in 1858—the year the British Crown took over the reigns of governing British India from the East India Company. At that time, the designation was Accountant General to Government of India. Prior to that, under the East India Company, upto the year 1857, 'accounts of the three Presidencies of Bengal, Madras and Bombay were prepared separately'. In 1857, it was decided to constitute a combined Department called General Department of Account and appoint an Accountant General to Government of India. The arrangements were effective from 1 May 1858. In 1860, these posts were amalgamated to create the post of first Auditor General who had both accounting and auditing functions. 'When the Department was further reorganised, in 1862, the Financial Secretary became the head of Financial Department, which included the Departments of Accounts and Audit. The Auditor and Accountant General to the Government of India became the head of those Departments, charged with the duty of bringing the accounts of the Indian Empire together and responsible to the Government of India for the correct performance of the mechanical duties of

Accounts and Audit as distinguished from administrative matters coming within the province of the Finance Secretary'. 'Broadly to this post may be traced the genesis of the present post of the Comptroller and Auditor General of India, though it had yet a long time to grow to attain its present responsibilities, independence and constitutional status and underwent several changes in its designation from time to time in that process'.² In 1866, the designation of Auditor General of India and Accountant General to the Government of India was changed to Comptroller General of Accounts.

In 1884, the designation was changed to Comptroller and Auditor General of India. The Government of India Act, 1919 gave him a statutory recognition and redesignated him as Auditor General in India who was appointed by the Secretary of State in Council and held office 'during His Majesty's pleasure'. Subsequently, under Government of India Act, 1935, he was designated as Auditor General of India. The 1935 Act made an important change viz. the appointment of C&AG was done by the King of England and not by the Secretary of State. Other two notable features of the Act were (i) he could be removed from office 'in like manner and on the like grounds as a judge of the Federal Court', (ii) on vacating office, Auditor General was debarred from holding any office under the Crown in India. These features were designed to ensure his independence. His responsibilities included accounting and audit of the Government of India, and eleven Provincial Governments.

The Government of India Act, 1935 laid down the provisions for appointment and service conditions of the Auditor General. Duties and functions of the Auditor General of India were derived mostly from Sections 166 to 169 of Government of India Act, 1935. The accounting functions of the Auditor General of India were incorporated in this Act as follows:

'The accounts of the Federation shall be kept in such form as the Auditor General of India may, with the approval of the Governor General, prescribe and, in so far as the Auditor General of India may, with the like approval, give any directions with regard to the methods or principles in accordance with which any accounts of Provinces ought to be kept, it shall be the duty of every Provincial Government to cause accounts to be kept accordingly'.

The detailed accounting functions were, however, specified in the Audit and Accounts Order, 1936. The accounts of the Central Government were compiled by the Accountant General, Central

Revenues (AGCR) and of the Provinces by the respective Accountants General. The annual accounts of each Government called Finance Accounts were prepared and submitted to the Central and Provincial Governments on prescribed due dates. The Auditor General of India was also responsible for preparation of a combined Finance and Revenue Accounts incorporating a summary of the accounts of the Union and the States for the preceding year and particulars of balances and outstanding liabilities for submission to the Government of India. This document comprised (1) General accounts and (2) Subsidiary accounts and was prefaced by an introductory note in which a brief and general description of the structure of the government accounts was given.

The auditing functions of the Auditor General of India were also detailed in Audit and Accounts Order, 1936. The Auditor General of India was required to audit all expenditure of the Federation and all Provinces, all transactions of these Governments relating to debt, deposit, sinking funds, advances, suspense accounts and remittances and trading/ manufacturing, profit and loss accounts and balance sheets of any department of Government.

The Auditor General of India was also required to audit the receipts of any department, if so required by the Governor General or the Governor of a Province for which Governor General or Governor of the Province might make regulations after consultation with the Auditor General of India. The Governor General was also empowered to appoint any independent officer to audit sanctions to expenditure accorded by Auditor General of India. The Auditor General of India was required to submit a report on his audit to the Governor General/ Governors for laying before the respective Legislatures. The Auditor General of India was also entrusted with some other miscellaneous duties. The Auditor General had a special right to compel a reference to the Secretary of State, where, in the course of his audit, 'he found that any authority in India had usurped a power retained absolutely by the Secretary of the State'³.

The Auditor General of India those days also acted as advisor to the Finance department regarding the application of financial rules and orders. He submitted his Reports in two separate volumes, Audit Report on Appropriation Accounts and Audit Report on Finance Accounts. Both these Reports were presented to Legislatures concerned. The reports were, as even today, 'a detailed, dispassionate account and were devoid of any expression suggesting a political opinion or a bias'.

During the period 1860 and 1947, when India became independent, 15 incumbents held this position. Since independence, there have been 10 incumbents to hold the post of C&AG including the present C&AG V.N. Kaul. Independent India's first C&AG V. Narahari Rao (1948–1954) and subsequent two incumbents who followed him, A.K. Chanda (1954–1960) and A.K. Roy (1960–66), belonged to the Indian Audit and Accounts Service (IA&AS). The fourth C&AG S. Ranganathan (1966–1972), was from the Indian Civil Service (ICS) while the fifth C&AG A. Baksi (1972–1978) was again from the Indian Audit and Accounts Service. From sixth C&AG Gian Prakash (1978–1984) onwards T. N. Chaturvedi (1984–1990), C.G. Somiah (1990–1996), V.K. Shunglu (1996–2002) and V. N. Kaul (2002–2007) all incumbents have come from the IAS⁴.

B. POST INDEPENDENCE DEVELOPMENTS

Post independence, four categories of field offices existed within Audit Department namely Civil, P&T, Railway and Defence Services audit offices. Civil and Posts and Telegraphs audit offices were combined audit and accounts offices, while the Railway and Defence Services were purely audit offices.

In 1947, there were 11 Civil Audit Offices—nine offices of AsG and two Comptrollers, one Accountant General (P&T), one Director of Audit, Defence Services and one Director of Railway Audit. The expenditure of the IA&AD was net Rs.108 lakh.

At the time of independence, the biggest challenge to the department was how to revamp itself in the face of declining staff strength, especially in the supervisory cadres caused due to the impact of partition of the country. The effective strength of IA&AS was only 39 against a sanctioned strength of 120. After independence, therefore, the foremost important task for the first Indian Auditor General was to strengthen and re-organise the department to meet the requirement of staff for the expanding department. The Auditor General of India pointed out to the Economy Committee all the facts regarding the depletion in the various cadres, which had resulted in the dilution and relaxation of audit. The department had also become structurally weak because of downgrading of the many senior posts and large drafts made on it by the Government of India to fill in the gaps existing in manpower there, during the war. As a result of all these factors, there was a wholesale curtailment of supervision of several audit processes in 1943. The Economy Committee appreciated all

these factors and recommended that the Audit Department, which had been progressively weakened, required considerable strengthening and re-organisation in the matter of personnel, training and its working processes. It suggested to Ministry of Finance to offer all necessary facilities to the Auditor General of India for securing the necessary re-organisation. The Committee made another important recommendation that subject to general restrictions regarding uniformity in pay scales and conditions of service, a convention should be established whereby the staff proposals of the Auditor General in regard to the numbers and character of the posts, and miscellaneous expenditure at any rate should be usually accepted by the Ministry of Finance.

INITIAL REVAMPING AND STRENGTHENING THE IA&AD

A thorough revamping and strengthening of the department was undertaken by the first Auditor General of India, V. Narahari Rao under a five-year scheme of strengthening the department. The integration of the former princely states had a covenant which required certain guarantees for their staff and accordingly a formula was evolved by the Finance Ministry and States Ministry.

The Auditor General of India was able to get an exemption from the Government from the procedure agreed under the integration of the princely states for absorption of their personnel to the audit services by getting the power to assess their suitability before absorption. The Special Recruitment Board of the UPSC alongwith the representative of the Auditor General of India carried out assessment of officers and, in all, 30 officers were taken over to the IA&AS, bulk of them came from Mysore and Hyderabad States. The total number of employees absorbed in the IA&AD from the former princely states was about 4,074.

In 1948, the total staff of the IA&AD numbered 15,600 including 120 IA&AS officers (effective strength of IA&AS officers was only 39). A post of ADAI (States) was created in September 1949 to deal with all matters relating to integration of the States, transfer of officers, selection and absorption of the personnel to IA&AD. With the enactment of the new Constitution on 26 January 1950, India became a Union of States and the Auditor General was designated as Comptroller and Auditor General of India (C&AG). With effect from 1 April 1950, the C&AG was responsible for accounting and audit of these States, except Jammu & Kashmir. Jammu & Kashmir came into C&AG's audit jurisdiction from 1 May 1958.

THE C&AG UNDER THE NEW CONSTITUTION

It is interesting to note that the draft Constitution based on the Memorandum on the Union Constitution prepared by the Constitutional Advisor B.N. Rau, in March 1947 had provision for appointment of an Auditor General for the Federal Government and Auditor General for the Provinces—a separate Auditor General for each province. While the Auditor General of Union to be appointed by the President was to have the same security of tenure as a Judge of Supreme Court and whose functions were to cover accounts of the federation as well as Provinces prescribed under the Federal Law, Auditors General of Provinces were to be appointed by the respective Governors, and they could be removed from the office in the same manner as High Court's Judges. The Provincial Auditor General could be appointed as Federal Auditor General, but not to any other office under the Government. The reports for audit and accounts were to be presented to the President or the Governor, as the case may be, for being laid before the appropriate legislature. While all other provisions of the draft were acceptable to an Expert Committee, it favoured the continuance of a single Auditor General for the Government of India as well as for the Provincial Governments. The drafting Committee of the Constitution chaired by Dr. B.R. Ambedkar made provision for an Auditor General of the States to be appointed by the Governor. After deliberating on these provisions between May and August, 1949 when several amendments were proposed on the status, powers and functions of the Auditor General, the idea of having multiple audit authorities, one for Union and one for each State was dropped and finally the Constitution provided for a single C&AG for the Centre as well as the States. There were suggestions to the effect that C&AG be selected from among Chartered Accountants but this was rejected being out-of-tune with the existing practice in the matter of appointment in this country and elsewhere. It is worthwhile to quote T.T. Krishnamachari in this context, 'actually the man who is an Auditor General is not an Accountant *per se*. He has a number of other duties to perform and in so functioning, he has got to have a knowledge of the entire administration and I think the present method of appointment of Auditors General in India is perhaps the best'.

Dr. Ambedkar observed 'Personally speaking for myself, I am of the opinion that this dignitary or officer is probably the most important officer in the Constitution of India ... and his duties, I

submit, are far more important than the duties even of the judiciary—he should be certainly as independent as the Judiciary.’ Dr. Ambedkar felt that Auditor General was not being given the same independence which was given to the judiciary. He was particularly critical that staff of Auditor General shall be appointed by the executive.

DUTIES, FUNCTIONS AND POWERS OF C&AG

Chapter V of the Constitution of India details the duties, functions and powers of the C&AG of India. Four Articles 148, 149, 150 and 151 of the Constitution define the basic structure of the institution of C&AG of India. The relevant extracts from these are reproduced below:

- ‘148.(1) There shall be a Comptroller and Auditor General of India, who shall be appointed by the President by warrant under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court.
- (2) Every person appointed to be the Comptroller and Auditor General of India shall, before he enters upon his office, take and subscribe before the President, or some person appointed in that behalf by him, an oath of affirmation according to the form set out for the purpose in the Third Schedule.
- (3) The salary and other conditions of service of the Comptroller and Auditor General shall be such as may be determined by Parliament by law and, until they are so determined, shall be as specified in the Second Schedule:
- Provided that neither the salary of a Comptroller and Auditor General nor his rights in respect of leave of absence, pension or age of retirement shall be varied to his disadvantage after his appointment.
- (4) The Comptroller and Auditor General shall not be eligible for further office either under the Government of India or under the Government of any State after he has ceased to hold his office.
- (5) Subject to the provisions of this Constitution and of any law made by Parliament, the conditions of service of persons serving in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor General shall be such as may be prescribed by

rules made by the President after consultation with the Comptroller and Auditor General.

- (6) The administrative expenses of the office of the Comptroller and Auditor General, including all salaries, allowances and pensions payable to or in respect of persons serving in that office, shall be charged upon the Consolidated Fund of India.
149. The Comptroller and Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States and of any other authority or body as may be prescribed by or under any law made by Parliament and, until provision in that behalf is so made, shall perform such duties and exercise such powers in relation to the accounts of the Union and of the States as were conferred on or exercisable by the Auditor General of India immediately before the commencement of this Constitution in relation to the accounts of the Dominion of India and of the Provinces respectively.
150. The accounts of the Union and of the States shall be kept in such form as the President may, on the advice of the Comptroller and Auditor General of India prescribe.
- 151.(1) The reports of the Comptroller and Auditor General of India relating to the accounts of the Union shall be submitted to the President, who shall cause them to be laid before each House of Parliament.
- (2) The reports of the Comptroller and Auditor General of India relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.'

To briefly summarise important contents of the Constitution, the C&AG of India is an independent constitutional authority, is neither a part of legislature nor executive though appointed by the President on the advice of the Prime Minister, he can be removed from office like Supreme Court Judge on a motion of impeachment. The C&AG is both audit as well as accounting authority for Centre as well as States. However, the accounting functions were taken away in the case of Centre in 1976 while accounts of the States continue with the C&AG (except of Goa); several entitlement functions in the States were also transferred from C&AG to state Governments between 1976 and 1989.

C&AG'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) ACT, 1971

In terms of the provisions of Articles 148(3) and 149 of the Constitution, C&AG's (DPC) Act, 1971 effective from 15 December 1971 was enacted, detailing the Duties, Powers & Conditions of Service of C&AG of India. The enactment of the legislation took 20 long years and during the interim period, the C&AG exercised his powers under the provisions of Audit and Accounts Order, 1936 'despite being an anachronism in a Republican Constitution with a parliamentary form of Government in a quasi-federal set-up with a common C&AG, which to certain extent, cramped the style and functioning of the Supreme Audit Authority ... and hampered the growth and development of the Institution to its fullest extent'⁵. As pointed out by R.K Chandrasekharan if despite this limitation there was phenomenal growth and development in the sphere of accounting, auditing and reporting, the credit goes only to the distinct personalities and genius of each C&AG. It is a remarkable story, no doubt, that during these 20 years, momentous changes in public administration and growth in development expenditure, emergence of PSEs as the main vehicle of Government's development activities/projects and finally a unique planning for the socio-economic development of the country took place. Each C&AG rose to the occasion to not only recognise the challenges thrown by these developments but took effective steps in building a formidable and competent audit system to tackle these mammoth developments. It will be best to recount some of these:

EXPANSION OF THE DEPARTMENT

After the adoption of the Constitution, the SAI was redesignated as Comptroller and Auditor General of India, (even though the powers of Comptroller were not given to him). During this period, Department's functions and activities increased tremendously due to two main developments in Government policies. One was the adoption of a loose centralised planning system under which a development plan with 5 years timeframe commenced from 1951 for the entire country projecting the overall investment in public sector as well as sectoral outlays. This meant massive increase in outlays on developmental expenditure that needed, naturally, additional manpower to audit the expenditure on these programmes. A second main reason for departmental expansion was the birth of and rapid growth of public sector enterprises, which were to be

'commanding heights of the economy'. After some initial reservations, the Government of India, finally decided to have C&AG's audit of these Public Sector Undertakings. (A detailed account of audit of PSUs is given in Chapter-7 on Commercial Audit). Tackling this gigantic task required special skills in Commercial auditing. C&AG Narahari Rao created Commercial Audit Wing and recruited some CAs directly as SAS Accountants—many of these were later drafted to IA&AS in the promotion quota.

Then in 1969, ARC recommendations gave a total new shape to the Commercial Audit Wing which expanded from just one Director to (in graded fashion) 12, called Directors of Audit and Members Audit Board. (Detailed account in Chapter-7).

Other major factors in the growth of the Department included the induction of Revenue Audit in Nineteen Sixties, which gradually became a major area of activity of C&AG. (Detailed account in Chapter-6).

Performance Audit, which started in Department in early Sixties by the name Efficiency-cum-Performance Audit, also had its impact on the growth of manpower strength in the Department specially during the time of A. Baksi when the role of Performance Audit expanded considerably. This branch of audit received more attention in his time when its role was defined more clearly, technical parameters were refined and all India Reviews (which were horizontal reviews across various States) of important schemes/programmes across the country were undertaken for the first time. Since then the Department has marched ahead in Performance Audit, specially in the time of present C&AG Shri Kaul, who has totally reshaped the audit systems in Performance Audit. These developments are contained in chapter 12.

STATUS OF VARIOUS FUNCTIONAL AUDITS

Defence Audit: Under Rule 8 (ii) of the Rules framed by the Secretary of State for India in Council, under the Government of India Act, 1919, the Auditor General was made responsible for audit of expenditure in India from the revenues of India. Since these Rules under the Act had a statutory backing, a question arose regarding the manner in which Auditor General should discharge his statutory responsibility in respect of defence expenditure. The decision taken was that the Auditor General should have his own inspection staff working in the Military (now Defence) Accounts Offices to check the accuracy of the work done in those offices. In March 1922, appointment of a Deputy Auditor General was made for the

purpose and in March 1924, two more Class-I officers of the General list, who were also designated as Deputy Auditor General for Test Audit of Military Accounts were posted. One of them was posted to Army HQrs while the other two were to work in the four commands. The Deputy Auditors General in charge of Commands carried out an exhaustive inspection and test audit of the work done in each Command and District Office of the Military (now Defence) Accounts Department. The Deputy Auditor General at HQrs audited the sanctions of Government of India in the Army Department and controlled and watched the progress of audit in the Commands⁶.

Under Rule 25 of the Auditor General's Rules, the Auditor General prescribed the form in which the accounts were to be submitted to him for inclusion in Finance and Revenue Accounts and for its audit and he also decided the nature and scope of the audit. The test audit was given the responsibility of carrying out concurrent audit 'to ensure that the accounts of the Army, as included in the Finance and Revenue Accounts, portrayed a correct presentation of facts, and represented that money has been spent as it is shown to have been spent'⁷.

In due course of time, namely in January 1925, under a new scheme, the post of Deputy Auditor General at Army HQrs was converted to the rank of an Accountant General designated as Director of Army Audit. The system of audit applied by the Comptroller and Auditor General of United Kingdom to the expenditure of the Army was to be followed by the Defence audit establishment in India as closely as Indian circumstances permitted. After the Government of India Act, 1935 was introduced, Government of India (Audit & Accounts) Order 1936 was issued under which the Auditor General was made responsible for keeping the accounts of the Dominion and of each province, other than the accounts of Defence, Railways and the accounts relating to transactions in the United Kingdom⁸.

At the time of independence, the designation of the head of the Defence Audit Department was Director of Audit, Defence Services (DADS). For obvious reasons the organisation and composition of the Defence Audit Department was closely patterned on finance and accounting organisation of the Ministry of Defence and the three services and allied departments. At the time of independence, the structure of the Defence Audit Department was that the DADS who was responsible for audit of expenditure of the Ministry of Defence, Army, Navy, Air Force and Ordnance

Factories assisted by a Deputy and Assistant Director and a Deputy Director each at Pune and Meerut, an Assistant Director each at Mumbai, Kolkata and Dehradun and an Audit Officer each at Allahabad and Patna. The strength of the Defence Audit Department in 1950 was 284 which included seven IA&AS officers. A separate Audit Report (Defence Services) was brought out and the Central Public Accounts Committee in 1923 considered the audit report on Army, Marine and Military Works Accounts for the year 1921-22 with the assistance of the Financial Advisor Military Finance and the Military Accountant General. But in 1924, doubts were expressed regarding the competence of the Public Accounts Committee to deal with Defence expenditure that was 'non-voted'. It was decided at that time that the Auditor General's report on Military expenditure should be submitted to the Secretary of State and a copy placed before Public Accounts Committee for information. However, with the purpose of submitting the reports to some alternate definite and responsible examination, an adhoc Committee of Military Accounts was set up in 1925, which consisted of the Finance Member, the Finance Secretary and the Army Secretary. It was only from November 1948 that Public Accounts Committee took a decision not to continue the Military Accounts Committee and since then the Public Accounts Committee deals with the Military Appropriation Accounts and Audit Report thereon⁹.

The strength of Defence Audit Organisation in 1987-88 was 836 including 16 IA&AS Officers and 44 AOs, 145 SAS Accountants, etc.

Audit of Posts and Telegraph: While a detailed historical account is available in Chapter-9 on P&T Audit, briefly the events prior to 1990 in regard to this branch of audit are narrated below.

The office of Accountant General (Post & Telegraph) was functioning in some form or the other since 1837. In 1950, the organisation had 5655 personnel on its rolls including 11 IA&AS officers and 40 Asstt. Audit Officers etc. Initially there were five branch offices namely Kolkata, Delhi, Madras, Nagpur and Kapurthala. Subsequently branch offices were added by upgrading some offices e.g. Hyderabad branch office was formed in October 1960. When AG (P&T) moved from Shimla to Delhi in 1969, the total workforce was 7928 including 23 IA&AS officers and 102 AOs, etc. Its expenditure was Rs.315.79 lakh in 1969-70.

The telecom wing accounts were taken over by the Executive Department in a phased manner during April 1968 to March 1971. However, a major reorganisation occurred in P&T Audit during

November–December 1969 to July 1971 when seven new circle wise branch audit offices were set up in Jaipur, Trivandrum, Cuttack (all in 1969) and Bangalore, Bhopal, Lucknow and Patna (all in July 1971). On the separation of accounts when accounting functions of Post and Telegraphs were transferred to the Union Government in April 1976, about 7664 persons representing 79 per cent of the total strength were transferred out. In 1988, there were 2094 personnel working in the P&T Audit with 14 IA&AS officers and 156 AOs.

Commercial Audit: Commercial Audit Branch of the Indian Audit Department was set up in January 1925 when a Chartered Accountant was appointed for a period of five years as Director of Commercial Audit in the Auditor General's office. In 1928, a separate Commercial Audit Branch was set up by direct recruitment of Chartered or Incorporated Accountants to the IA&AS while at the same time some of the other regular officers of the IA&AS were given training in commercial accounting and auditing. The AOs cadre in commercial side was filled mostly by appointing chartered accountants or by promotion of SAS passed officials in the Audit Department. For this purpose, SAS Commercial examination was instituted. The Commercial Audit Branch was made permanent from January 1929 and at that time, apart from the Director, there were four Asstt. Directors and four Asstt. Audit Officers. The post of Director of Commercial Audit was abolished in 1930 due to economy measures and the functions were entrusted to the existing local audit in the provinces. Audit of Central Government Commercial concerns was carried out by the respective Accountants General on behalf of the AGCR. In a way, therefore, commercial audit as a separate entity ceased to exist in the IA&AD. Such a situation continued till 1951. In the post independence era, a large number of autonomous statutory corporations were set up by Acts of Parliament. The then C&AG had already stated before PAC that he did not regard it as being in conformity with his Constitutional position to be empowered to perform audit functions by virtue of the powers vested in him by the articles of a private company and desired that such corporations should be set up under statutes of Parliament which should define C&AG's role in auditing them. The PAC endorsed C&AG's view point. The C&AG, however, informed the PAC that as regards audit of Reserve Bank of India, he had not got the requisite machinery to undertake this job 'at present'.

Narahari Rao revived commercial audit in 1951 by inducting a Controller of Commercial Audit in his office 'ostensibly to establish Commercial Audit Wings in the offices of Accountants General'. He established a commercial audit wing in each civil and P&T office under the charge of selected officers and adequate staff. He started recruitment of commercially qualified persons. In the following years, three distinct type of Government commercial undertakings emerged: departmental undertakings, statutory corporations and government companies. Accordingly, the procedure and pattern of commercial audit was also developed suitably for audit of these different types of public sector undertakings. Initially, the Government set up a couple of companies as private companies with Government money like Sindri Fertilizer and asked the C&AG to audit them. The C&AG had the view that the company had no right to ask him to audit its accounts and he brought the matters to a fore when he sent a note to the Government through the PAC in December 1952 that formation of private companies under the Indian Companies Act for management of Government undertakings was in his opinion a fraud on the Indian Companies Act as also on the Constitution. Eventually the Finance Minister had to give in (to a large extent, the credit for resolving the matter is given by R.K. Chandrasekharan to S. Ranganathan who was at that time Secretary, Ministry of Industrial Supply and who later became C&AG and completely overhauled the commercial audit system) by agreeing to make suitable provisions in the Indian Companies Act for C&AG's audit. As regards audit of Financial Corporations, C&AG's powers were as defined in the relevant Act itself. Chandrasekharan has quoted a number of instances of State Governments objecting to C&AG's audit in the initial days. It was left to A.K. Chanda, the successor C&AG to sort out the matters with the Government of India which agreed that the legislation would be brought before Parliament to cover industrial undertakings of the Government to provide for making audit of the C&AG compulsory and presentation of report to Parliament in the usual way for scrutiny by the PAC. Things settled down with the passing of the Companies Act 1956 which allowed the C&AG unfettered right to direct the chartered accountant regarding the manner in which the company's accounts shall be audited and to give such audit instructions in regard to any matter relating to the performance of his function as such. The C&AG got the right to conduct a supplementary or test audit of the company accounts and, in addition he also got the

right to comment upon the audit of the statutory auditor or supplement the audit report in such manner as 'he may think fit'. Finally all such comments in the audit reports were to be placed before the AGM of the company at the same time and in the same manner as audit report. There were minor changes subsequently in 1974 when an amendment to the Companies Act created a new class of companies commonly known in the Department as deemed government companies in respect of which C&AG got auditing powers. An independent office for Commercial Audit was created with effect from 1 October 1955 and designated as office of Director of Commercial Audit. Subsequently, as a result of Administrative Reforms Commission Report, a big expansion of commercial audit took place and Audit Board mechanism was introduced with effect from 1 April 1969 resulting in creation of nine new offices designated as offices of Member Audit Board and Director of Commercial Audit.

Audit of Science and Technology¹⁰: After independence, Atomic Energy Commission (AEC) was first big scientific institution to come up in 1948. The audit of expenditure of this organisation had an entirely different basis—the expenditure was admitted in audit on the basis of certificate given by the Prime Minister under whom the Commission fell and the detailed accounts were kept by the Secretary of the Department of Scientific Research and these were checked by the Principal Secretary to the Prime Minister after which PM's final approval was obtained. The then Auditor General, Narahari Rao had some reservations about this kind of arrangement specially because the Government had not stated that the expenditure was on secret object. Hence 'it would be prejudicial not to subject this to audit in the usual manner'. He was of the view that while certain category of expenditure could be excluded from audit, being of secret nature, there were other items of expenditure that would not classify as secret. When this matter was taken up with the PM Secretariat and Secretaries, Ministry of Finance and Department of Scientific Research in June 1949, a decision was taken that all expenditure including secret expenditure would be subject to audit provided the Auditor General deputed a specially selected officer of his department who would audit the expenditure on oath of secrecy. This was agreed subject to the condition that the nominated officer would take orders where necessary only from the Auditor General since he was the final audit authority. Subsequently, the Law Ministry advised that there was no provision requiring or authorising the administration to

provide for an oath of secrecy by the auditor, accordingly it was decided that it would suffice if the officer concerned was made aware that he would be bound to secrecy in all matters which came to his notice. When the Department of Atomic Energy was set up in August 1954 with HQrs in Bombay, Accountant General, Bombay was nominated to function as auditor to the Department as well as AEC. Audit was done on a concurrent local audit basis. The system continued for about 10 years. In 1960, in a special audit of the AEC, certain irregularities were noticed. It was considered an opportune time to review the procedure. The then DAI (G.S. Rau) proposed to C&AG that only a small portion of expenditure which was really secret should be left out and rest should be audited and reported in usual manner. A.K. Chanda who was about to retire left the decision to his successor. A.K. Roy (his successor) wrote to Dr. Homi J. Bhabha, Chairman of AEC for discussion in the matter but Bhabha, while readily agreed for discussion, invoked the special procedure for audit of AEC. Consequently, during the entire tenure of A.K. Roy, no major change in the system of audit or reporting of results took place. In 1966, when S. Ranganathan was C&AG, it was decided that draft paras on Department of Atomic Energy would be discussed by the C&AG with the Chairman of AEC and by the respective officers of both the sides. Meanwhile, new scientific department had been established and this audit was entrusted to AG, Bombay. The audit of scientific institutions was reviewed by A. Baksi after coming in force of C&AG's DPC Act 1971. He created a post of Additional Accountant General, Scientific Departments and made him incharge of accounting and audit functions of these institutions including Department of Atomic Energy and Department of Space. The office of additional AG was upgraded to AG Scientific and Commercial Departments in March 1975 and was renamed Director of Audit, Scientific and Commercial Department. In September 1984, then C&AG T.N. Chaturvedi took a decision based on the recommendation of Science Advisory Committee to the Cabinet to have a unified audit of all scientific departments/ bodies/ authorities, under the control of DACW&M, New Delhi with branches at Bombay, Calcutta and Madras. In 1986, this office was separated and named as DACW&M-II. The office got proper name when it was redesignated in 1989 as office of the Director of Audit (Scientific Departments), New Delhi and is now entrusted with the audit of all the Science and Technology institutions of the country.

Railway Audit: Railway Finances were separated from General Finances of the Government of India in 1924, which resulted in a separate Railway Budget outside the General Budget. This was followed by separation of audit and accounts in the Railways whereby accounting became a departmental affair while external audit remained with the Auditor General. The Railways operate on a zonal basis below which are Divisional Railway Managers. At the time of independence, the Director of Railway Audit who was stationed at Shimla, was assisted by four Chief Auditors of the level of Accountant General who were stationed at HQrs of each Railway zone. The big organisational change in Railway audit set up came in 1955 when A.K. Chanda merged the office of the Director of Railway Audit in his office to 'achieve greater speed, efficiency and economy in the functioning of the Railway Audit Wing'. The Chief Auditors were vested with the same authority as Accountant General. In the HQrs, Railway Audit Wing was headed by an ADAI (Railways) and ex-officio Director of Railway Audit.

In 1966, the procedure for audit of transactions of railways was reviewed and rationalised. In May 1970, Internal Test Audit was introduced in the office of the Chief Auditors. Significant changes in the contents of Audit Reports were introduced in late 1960s. Reviews on schemes/ projects of individual railways as also comments on individual transactions were reported. Later, emphasis shifted to comprehensive reviews of major schemes and projects in line with the Audit Departments emphasis on performance auditing.

In 1990, the Railway Audit Wing was headed by ADAI (Railways), who had under him 9 Principal Directors of Railway Audit incharge of audit of Zonal Railways. The Principal Directors had resident audit offices in DRM offices. In the Railway Board also, a small set up was created to do contracts audit at the Board level and accounts audit apart from functioning as resident audit office. Recently, the audit set up in Railway Board was augmented on the basis of Railway Audit Norms Committee Report by appointing a Director level officer. The duties and functions are detailed in Chapter-10.

OTHER DEVELOPMENTS: SEPARATION OF UNION GOVERNMENT ACCOUNTS FROM C&AG'S ORGANISATION

The Departmentalised Accounting System was approved by the Cabinet in June 1975. The Departmentalisation of Accounts was first introduced in the Postal Department, Ministry of Industry and Civil Supplies and Ministry of Tourism and Civil Aviation from 1 June 1976 and in all other Ministries from 1 October 1976. Simultaneously, it was decided that the rules for transfer of personnel will be framed. It is interesting to note what the Administrative Reforms Commission constituted by Government of India in June 1966 had said on this subject:

'Transfer of responsibilities for the compilation of accounts from the Audit Department to the Administrative Ministries and Departments was not feasible as a matter of general policy as there was no inherent conflict or disadvantage in the combination of the compilation of accounts with that of audit'.

The Finance Minister in his budget speech for the year 1976-77, while announcing the impending separation of Accounts as stated above, gave the *raison d'être* for the separation thus:

'The existing system under which accounts are maintained by an agency external to the Ministries and Departments is not conducive to effective financial management. Accounts and finance should form an integral part of overall management and should play a more meaningful and effective role in selection of projects, allocation of funds, monitoring of expenditure in relation to physical progress and evaluation of results'.

The departmentalisation of Accounts in 1976 was preceded by a proposal for Separation of Accounts¹¹ in 1973 on which the Finance Secretary had requested the views and suggestions of the C&AG on 31 May 1974. C&AG Baksi's response dated 7 April 1975 to Finance Ministry was, as recorded by Shri Chandrasekharan 'as an individual' where he spelt out several problems that were likely to be faced in implementing these reforms and he was also doubtful of the efficiency of the proposed reforms. However, by that time (middle of 1975), the Government had made up its mind to departmentalise the accounts and in July 1975, the Prime Minister had minuted expressing anguish that progress was not at all satisfactory about separation and told the Finance Minister to speak

to the C&AG'. She wanted the matter not to be delayed any further. Resultantly, the process of departmentalisation got hastened culminating in the issue of Proclamation of two Ordinances which were later ratified by Parliament. The new system created the organisation of Controller General of Accounts within the Department of Expenditure of the Ministry of Finance. The Controller General of Accounts became the Principal Accounting Authority of the Government of India. This resulted in the reduction of the staff strength in IA&AD and major reorganisation of the Audit Department.

1984—RESTRUCTURING OF IA&AD

C&AG Gian Prakash decided to bifurcate the existing combined audit and accounts offices in States (AG office) by creating separate offices for accounting and entitlement functions. In 1984, accordingly, 22 offices of A&E came into existence. This separation of accounting and auditing functions into two separate independent offices ensures that the office which compiles accounts does not audit them too.

OTHER DEVELOPMENTS

During the period, certain changes in the structure/ organisation of the department took place from time to time on account of particular developments and requirements of administrative efficiency.

As a result of recommendations of a Committee constituted (year 1979) under the Chairmanship of T. Rangachari, the then ADAI (Commercial), reorganisation of Civil Audit and Accounts Offices was carried out to give recognition to the principle of optimum size of Civil Audit and Accounts Offices (upto 1500 manpower), formation of separate commercial audit offices by breaking up the existing civil audit offices and reorganisation of certain offices by upgrading the branch offices. As a result of implementation of these recommendations, the number of Civil Audit and Accounts Offices with Head of Department level officer increased to 40 by 1982.

An important development during the time of Gian Parkash relates to transfer of recruitment of Auditors/ Clerks, which was earlier being done by the concerned Accountants General, to the Staff Selection Commission from March 1979. Whether this step has resulted in improvement in filling up the vacancies is a moot

point but certainly it has resulted in relieving the Accountants General of a considerable amount of work.

There were significant reforms introduced during the period of C&AG Gian Prakash relating to the inspection of offices. There was also considerable strengthening of the internal test audit functions in the Accountants General's offices. On the Inspection side, the post of Director (Inspection) in HQrs office was elevated to the Accountant General's level.

TRAINING

The credit for establishing a full fledged O&M Division in the Department goes to C&AG Gian Prakash who set up such a division in 1978 whose work included studying the system of work and procedures in different areas of the office, make suggestions for possible improvements in audit and accounting systems, study of flow/ transmission of records within the office, records management, review of local forms and also the procedural shortcomings noticed in the instructions of internal test audit wing, organising International Training Programmes, sponsoring programmes, training programmes for officers and staff of the Department, preparation of training modules and monitoring of the training activities of RTIs in field offices. Certain ad-hoc duties were also entrusted to the O&M Unit including work relating to INTOSAI, ASOSAI, Conference of Commonwealth Auditors General. In addition, O&M Units were introduced in select Accountants General's Offices during this period.

O&M Unit also brought out audit guides on selected subjects. A quarterly journal called Journal of Management and Training was introduced from April 1984. The real boost to training activities, however, was given when T.N. Chaturvedi was the C&AG. A separate Training Division was created in April 1986 and the work relating to training was transferred to this division. The emphasis on training in his time could be also because of the fact that he had been a keen training person during his career in IAS that included Joint Director, National Academy of Administration, Mussoorie and Director, Indian Institute of Public Administration, New Delhi. He appointed, on deputation, an officer of the Training Division from Department of Personnel and Training, as OSD (Training) and one of the highlights of this period was that it gave a new impetus to the International Training Programmes. Five RTIs were set up during his regime and the training facilities were vastly improved in the Department.

NOTES: CHAPTER-1

¹ This section presents a summary of the major developments in the C&AG's organization upto the period 1989—the material is based on several sources, but mostly on R.K. Chandrasekharan's 'Analytical History—1947–1989' and M.S. Ramayyar's Indian Audit and Accounts Department, Indian Institute of Public Administration, New Delhi, 1967; V.K. Shunglu's article in Indian Journal of Public Administration. Some material has been taken from the primary documents i.e. old files and speeches of the C&AGs.

² M.S. Ramayyar (1967) Indian Audit and Accounts Department (New Delhi. The Indian Institute of Public Administration), page 16

³ R.K. Chandrasekaran (1990) The Comptroller and Auditor General of India Analytical History 1947–1989 (New Delhi, Ashish Publishing House) Vol I, page 11

⁴ The Constitution does not prescribe any qualifications for appointment to the post of Comptroller and Auditor General of India, but by convention the post has always been held by a Civil Servant. Comptroller and Auditor General of India is neither an officer of Parliament nor part of executive. He is an independent Constitutional Authority.

⁵ R.K. Chandrasekharan, Op. Cit.

⁶ Manual of the Audit Department, Defence Services

⁷ R.K. Chandrasekharan, Op. Cit Vol.-II Page 712

⁸ Manual of the Audit Department, Defence Services

⁹ M.S. Ramayyar, Op. Cit. Pages 483-484

¹⁰ R.K. Chandrasekharan, Op. Cit Chapter-24

¹¹ R.K. Chandrasekharan's Book gives an excellent accounts of the subject.

GLOSSARY OF ABBREVIATIONS

AD	Assistant Director
AEC	Accounts, Entitlements and Complaints
AGM	Annual General Meeting
ARC	Administrative Reforms Commission
CA	Chartered Accountant
DACW&M	Director of Audit, Commerce, Works & Miscellaneous
DRA	Director of Revenue Audit
DRM	Divisional Railway Manager
FAO	Food and Agricultural Organisation
GASAB	Government Accounting Standards Advisory Board
IAS	Indian Administrative Service
IPAI	Institute of Public Auditors of India
MIS	Management Information System
NOIDA	New Okhla Industrial Development Authority
O&M	Organisation & Methods
OSD (Training)	Officer on Special Duty (Training)
P&T	Post & Telegraphs
PA	Performance Audit
PM	Prime Minister
PRI	Panchayati Raj Institutions
PSE	Public Sector Enterprise
RTI	Regional Training Institute
SAS	Subordinate Accounts Service
ULB	Urban Local Bodies
UN	United Nations
UPSC	Union Public Service Commission
WHO	World Health Organisation
WTO	World Trade Organisation