

LOK SABHA

JOINT COMMITTEE

ON

**THE COMPTROLLER AND AUDITOR
GENERAL'S (DUTIES, POWERS
AND CONDITIONS OF SERVICE)
BILL, 1969**

EVIDENCE



**LOK SABHA SECRETARIAT
NEW DELHI**

November, 1970/Kartika 1892 (Saka)

Price: Rs. · 2.85

Corrigenda to the Evidence given before
the Joint Committee on the Comptroller
and Auditor-General's (Duties, Powers,
and Conditions of Service) Bill, 1969.

.....

- Page 9, col. 1, lines 7-8, for 'accounts'
read 'accountants'
- Page 12, col. 1, line 21 from bottom, for 'Ttul'
read 'Atul'
- Page 26, line 3, for '11.10 hours'
read '11.00 hours'.
- Page 28, col. 1, line 7, for 'The' read 'This'
- Page 29, col. 1, line 21 from bottom, for 'turn'
read 'term'
- Page 29, col. 2, line 19, for 'GAG' read 'CAG'
- Page 32, col. 1, line 18, for 'be' read 'he'
- Page 44, col. 1, line 4 from bottom, for 'LAAS'
read 'I.A.A.S.'
- Page 50, col. 1, after line 17, insert '(The
Committee then adjourned to meet at 15.00
hours)'
- Page 52, col. 2, line 1, for 'salh' read 'said'.
- Page 53, col. 1, line 26, for 'per' read 'percent'
- Page 73, col. 1, line 5, for 'indicting'
read 'inducting'.
- Page 73, col. 2, line 3, for 'inpediment'
read 'impediment'
- Page 76, col. 2, line 6 from bottom,
for 'deparetment' read 'department'
- Page 76, col. 2, line 3 from bottom,
for 'conditnions' read 'conditions'
- Page 80, col. 2, line 10 from bottom, for 'ament'
read 'amend' and for 'Act' read 'Acts'
- Page 81, col. 2, line 12, for 'mancer'
read 'manner'
- Page 122, col. 2, for existing line 11 from
bottom, read 'ject to the provisions of
the Consti-'
- Page 129, col. 1, line 2 from bottom, for 'to'
read 'go'
- Page 146, col. 1, line 15 from bottom, for
'complainess' read 'complainless'
- Page 149, col. 1, last line, for 'matures'
read 'matters'

(P.T.O.)

Page 165, Col 1, line 5, for 'conciuous'
read 'conscious'
Page 166, Col 1, lines 9&17, for 'conrol'
read 'control'
Page 167, Col 1, line 8, for 'if' read 'it'
Page 178, Col 2, line 26, for 'readly'
read 'really'
Page 185, Col 2, for existing line 28,
read '-ing, but that may be
the reason for'
Page 223, line 2, for 'Edonomic' read 'Economic'

JOINT COMMITTEE ON THE COMPTROLLER AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969

COMPOSITION OF THE COMMITTEE

Shri S. M. Joshi—Chairman

MEMEBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
- @4. Shri Y. B. Chavan
5. Shri Dinkar Desai
6. Shri Nageshwar Dwivedi
7. Shri J. M. Imam
8. Shri S. Kandappan
9. Shri S. S. Kothari
10. Shrimati Sangam Laxmi Bai
11. Shri Dhuleshwar Meena
12. Shri Anand Narain Mulla
13. Shri P. K. Vasudevan Nair
14. Shri D. N. Patodia
15. Chaudhuri Randhir Singh
16. Shri S. M. Siddayya
17. Shri S. N. Shukla
18. Shri Sant Bux Singh
19. Shri R. Umanath
20. Shri Nagendra Prasad Yadav
- †21. Shri Paokai Haokip
- @22. Shri Vidya Charan Shukla

Rajya Sabha

23. Shri M. Anandam
24. Shri Anant Prasad Sharma
25. Shri Gurumukh Singh Musafir
26. Shri C. D. Pande
27. Shri T. Chengalvaroyan
28. Shri Sundar Mani Patel
29. Shri Kalyan Roy
30. Shri Thillai Villalan
- *31. Pandit Bhawaniprasad Tiwari
- **32. Shri B. N. Mandal
- %33. Shri V. B. Raju

@Appointed on the 26th August, 1970.

†Appointed on the 1st September, 1970 vice Shri Prakashchand B. Sethi resigned.

*Ceased to be member of the Joint Committee *w.e.f.* 2nd April, 1970 on his retirement from Rajya Sabha and was reappointed on the 23rd May, 1970.

**Appointed on the 23rd May, 1970 vice Sharimati Sarla Bhadauria who ceased to be member of the Joint Committee *w.e.f.* 2nd April, 1970 on her retirement from Rajya Sabha.

%Appointed on the 1st September, 1970.

(i)

LEGISLATIVE COUNSEL

1. **Shri S. K. Maitra**, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. **Shri A. P. Pandey**, *Asstt. Legislative Council, Ministry of Law.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

1. **Dr. I. G. Patel**, *Secretary.*
2. **Shri B. Maithreyan**, *Joint Secretary (Budget).*
3. **Shri A. G. Krishnan**, *Deputy Secretary (Budget).*

SECRETARIAT

Shri M. C. Chawla—*Deputy Secretary.*

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**MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969**

Monday the 19th January, 1970 at 11.00 hours

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Nageshwar Dwivedi
5. Shri J. M. Imam
6. Shri S. Kandappan
7. Shri S. S. Kothari
8. Shrimati Sangam Laxmi Bai
9. Shri P. K. Vasudevan Nair
10. Shri D. N. Patodia
11. Shri S. M. Siddayya
12. Shri S. N. Shukla
13. Shri Sant Bux Singh
14. Shri R. Umanath
15. Shri Prakashchand B. Sethi

Rajya Sabha

16. Shri M. Anandam
17. Shri Gurumukh Singh Musafir
18. Pandit Bhawaniprasad Tiwary
19. Shri C. D. Pande
20. Shri Sundar Mani Patel
21. Shrimati Sarla Bhadauria
22. Shri Kalyan Roy
23. Shri Thilai Villalan

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2. Shri A. P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

1. Dr. I. G. Patel, *Special Secretary.*
2. Shri A. R. Shirali, *Joint Secretary. (Budget).*
3. Shri K. N. Singh, *Director.*
4. Shri A. G. Krishnan, *Deputy Secretary (Budget).*

SECRETARIAT

Shri D. C. Pandey—*Under Secretary.*

Shri S. P. Gupta—*Section Officer.*

WITNESS EXAMINED

Shri A. K. Roy, *former Comptroller and Auditor General of India.*

(The witness was called in and he took his seat)

MR. CHAIRMAN: I am very glad to note that you are present here. We thought that it might not be possible for you to come over here.

SHRI A. K. ROY: Only tomorrow will not suit me.

MR. CHAIRMAN: All right. There is some formal business to be done. The witness may kindly note that the evidence given here will be treated as public and will be liable to be published unless he specifically desires that all or any part of the evidence tendered by him is to be treated as confidential. Even if you desire your evidence to be treated as confidential, such evidence is liable to be made available to Members of Parliament.

SHRI A. K. ROY: That is all right. I have already signed that.

MR. CHAIRMAN: You have already submitted a written memorandum. I should be excused that since I was in the train I have not been able to read that. All of them, I suppose, may not also have received them. Anyway it would be better if you say what you want to say orally.

SHRI A. K. ROY: The first point that I have raised in my memorandum is this. Although the Bill proposes to give certain powers to the Auditor-General, he has no means of implementing those powers in the sense that in the matter of staff, accommodation, his office establishment etc., etc., he is completely in the hands of the Finance Ministry. That, in my opinion, is most unfortunate because it is the Finance Ministry's actions which come most under his purview and it seems to me to be completely wrong that the Auditor-General should have to fall at its feet as it were for staff, this, that and so on. The kind of whip-hand that the Finance Ministry holds on the Auditor-General will be evident from the fact that during the last twenty years, I think, there has been only one Deputy Auditor-General while the number of Secretaries to Government, that is to say the Spending Departments, has gone up. I have given you the figures—it is from 24 to 47. At the same time, seventeen new States have come into existence plus nine Union Territories. But the Auditor-General has still got one Deputy of the rank of an Additional Secretary. That is the kind of whip-hand they have held. Another example of that kind is

really this. Take the Accountant Generals in the States who are the representatives of the Auditor-General functioning there.

Now, by convention and by virtue of his position as also by virtue of his salary, it is always the practice in the States to regard the Accountants General as almost equivalent to that of a Chief Secretary. To-day, the salaries of these people have gone up. But the Accountant General draws a salary less than that of a Divisional Commissioner. You may not like it; I may not like it; but, administratively and in actual practice, what happens is that senior officers of one department have really no respect for the junior officers of another department. He is now regarded as more or less a junior officer. Thirdly, the work has gone up because Commercial Audit has come into existence. Also Revenue Audit has come into existence. And there has not been adequate strength given to the Auditor General to perform his functions in the way he would like to do it. You will see in England that the Auditor-General is in a different position. He is an officer of the House of Commons. He is not an officer of the Constitution. There, by convention, the Chairman of the Public Accounts Committee is the leader of the opposition and the Auditor-General, therefore, gets the support both of the Speaker being one of his officers and of the leader of the opposition. Therefore, he is in a much happier position in this respect. I am not saying that he is happier in other respects. But in this respect he is happier. Therefore, something ought to be done; just as in the case of the Supreme Court powers of appointments have been given, something should be done in the case of the Auditor-General.

The second point I have raised is, in the Bill you will find in the several sections it is said 'after consultation with the CAG.' Now consulta-

tion does not mean concurrence. Therefore, all that the Government have to do is to send the proposals to the Auditor-General in advance and no matter what he says, do exactly as they like after consultation with the CAG. That seems to be completely meaningless. In fact, some times, it places the CAG in an embarrassing condition. General impression is that he must have agreed to it. It does not show 'after concurrence with the CAG'.

The third point I have raised is about audit of Public Sector undertakings. If you see the provisions of the various Acts creating the several public sector corporations I mean which are statutory, you will find in the case of the Indian Airlines Corporation, the Auditor General is the auditor. In the case of Food Corporation of India, the Auditor General recommends a panel of three names of auditors to the Government and there his function ends. In the third case, we take the most important financial institution—L. I. C., the Auditor General does not come into the picture at all. There is no doubt that these are audited by Chartered Accountants/public auditors. But the scope of the work of the Chartered Accountant working as a public auditor is limited to regulatory audit, that is to see that proper sanctions and authority exist, that proper vouchers exist, accounts have been properly classified and correctly presented, not that they are, I think, superior to the ordinary staff carrying out those functions. What the Chartered Accountants do not do is propriety audit or efficient audit.

When I was CAG, my favourite questions were two. One, I said, you know that the market price of steel is say Rs. 1000 a ton, roughly that of mild steel rod. Supposing you found a sanction of Rs. 10,000 a ton and a proper voucher for it, what would you do? My second favourite question was, supposing a company starts with plant and machinery worth 1 crore and

within 2 years they show sale of 20 lakhs. The answer was invariably nothing.

The point is that they are not doing propriety audit. It is not within their function. The Chartered Accountant depends upon the share holders, to delve through the accounts, put questions for this and find out what is happening. But here, the CAG is, I believe, watch dog of the Parliament—and it is for him to point out to the Parliament and to the public, what are the items of impropriety?

The other point I have raised in this very connection is the question of Government Companies. Now, today's position is that Government companies are subject to supplementary audit of the Auditor General. But Government have been clever enough to find ways and means of shutting the CAG out. For instance, take *Jessep & Co.* Now it is held by Government, by the LIC and one other organisation. I have forgotten the name. But Government have been careful to take just below 51 per cent shares. Therefore, it does not come under Government audit, although rest of the money belongs to the public because it is LIC money and others. Similarly, take the case of Oil India. There, they have kept 50:50 per cent share with the Assam or Burma Oil Co., but they have given large loans so that the financial interest of Government is much more than 50 per cent and yet the Auditor General has been shut out of it. There may be other instances but I have not studied all the instances. My suggestion is that wherever Government have a significant contribution whether in the form of equity capital, debt capital, preference capital or whatever it is, the Auditor General should have the right of supplementary audit. He must, within his limitation of staff and all that, be able to do proper justice to all the companies. He should be given the right. The mere fact that he has the right will put some check on the activities of these organisations.

The fourth point which I have referred to in the details of the Memorandum and to which I would like to draw the attention is that the so-called powers of the Auditor General (which this Bill has taken more than 20 years to draft) are no more than any auditor as in any Public Company. I mean there is nothing in the powers which are wider than those of the powers of the Chartered Accountant auditing a Company but the Auditor General does not have the sanction which the Chartered Accountant has. I will explain it.

(a) You see, under the law the Accounts of a Company have to be presented to the share holders. The General meeting is to be held within six months of the closing of the year and for that purpose audit has to be completed and the Auditor certifies the Accounts. Otherwise the accounts cannot be presented. Therefore, the auditor has to be satisfied within a limited period of time.

(b) If he is not satisfied, he has the right to say in his report, what he calls a qualified report, in which he mentions that he has not seen these papers and he is not satisfied with these accounts and this particular question has not been answered or whatever it may be.

(c) The Directors are required to say in their Annual Account their answers to the points raised by the auditors.

Here in Government the Auditor General has the right to call for papers, documents, etc. But I do not know that they delay answering questions to CAG so that the importance of the point dies down by flux of time.

What is the sanction of the Auditor General? You cannot expect the Auditor General to come to the Public Accounts Committee every year and say that these people delayed by three months and that they should have taken only one month. All the detail is very difficult to give. Therefore, we

must devise sanction by which the Auditor General can enforce compliance with his requirements. At the same time, the Auditor General should not be unreasonable; he should not ask the paper which are not necessary and which are remotely needed. At the same time, he should also be equally careful that he does not hold up Government work by keeping relevant papers with him. Some machinery should be found by which you can enforce that due attention is given to the requirements of the Auditor General, as exists in the case of Public Companies by limiting their period to six months within which time the accounts should be submitted to the General Body meeting. These are the four general matters. If you would like, I will elaborate on the pension of Auditor-General also.

SHRI M. ANANDAM: You have not mentioned about the so called distinction between the Public Limited Companies of the Government and the Autonomous Corporations.

SHRI A. K. ROY: I mentioned that. I started by saying....

SHRI M. ANANDAM: That was distinction of the type of audit done. What is the rationale for the Government to divide this into two categories—Autonomous Corporations and Joint Stock Companies?

SHRI A. K. ROY: That is a matter for Parliament. When Parliament decides....

SHRI M. ANANDAM: Is there any real difference?

SHRI A. K. ROY: No. Not to my knowledge. I cannot see the distinction between the two.

SHRI S. S. KOTHARI: Mr. Roy, we have gone through your Memorandum. I feel it to be a very good Memorandum.

On the basis of evidence, I would like to know whether you would like to empower the Auditor General with regard to additional staff. If in every case, he has to come to the Finance Ministry, we can appreciate what the consequences are. Therefore, how would you like to remedy the situation?

SHRI A. K. ROY: The matter is really more complicated because the Auditor General in India deals not only with Union accounts but also with the accounts of the States. There may be certain regulations of States with which even the Finance Ministry may not be even aware of. That is the difficulty. My own suggestion would be that if you like a Special Committee—Public Accounts Committee or some Parliamentary Committee—should examine the requirements of Auditor-General. The Auditor-General should have the right to go to the Committee and say that unless you do that for me, I am not going to be able to audit. That is the only suggestion.

SHRI S. S. KOTHARI: That is good. Instead of going to the Finance Ministry, he should go to the Parliamentary Committee.

SHRI A. K. ROY: You can examine the needs. I think the Auditor General should inform, and not ask for.

SHRI S. S. KOTHARI: That could be going to the Parliament.

SHRI A. K. ROY: It would be. But the Auditor General has no powers because he has no spokesman in Parliament. There is no one in Parliament who can really speak for him. Supposing the Auditor General has grievances about staff, and he is not performing his functions properly because of the paucity of staff. Well, all that he gets is the remark that the Auditor General is not efficient. He has no spokesman to acquaint the Parliament with his own difficulties. Therefore, because of the constitutional position as it stands and this is a unique constitutional position—because, I think

that India is the only country in the world in which the post of the Auditor-General has been provided for in the Constitution—we have to find a unique solution.

SHRI S. S. KOTHARI: My second question is with regard to qualifications or adverse remarks in the Reports of the Auditor General. What would you suggest—whether you would suggest some method by which it could be included that proper implementation is made by the Government—that is, those remarks are cleared, proper explanations are given and efforts are made to see that such mistakes do not recur.

SHRI A. K. ROY: For the first part, actually there is a provision also. There is the Public Accounts Committee which goes into the Report of the Auditor-General and makes recommendations. Then the Government are required to furnish their answers on the action taken and all that. My point in that respect was merely this that even in order to prepare that Report for submission to Parliament, he has to get facts and figures, and files and records from the Government. And there must be some means of forcing the Government to comply with it adequately in a responsive and responsible way. Today, the Auditor-General can send for a file, and the Government can take one year. The Auditor-General has no remedy.

SHRI S. S. KOTHARI: I am going even beyond what you suggested. My point is that certain adverse remarks are made by the Auditor-General. Firstly, is the Government bound to reply to the Auditor-General himself or not?

SHRI A. K. ROY: Yes. Before the Auditor-General puts down anything on the Report, he has discussions with Government mostly in writing and often verbally also. And it is only thereafter that the Report is signed and presented by the Auditor-General. But that period is a very long period. That was my point.

SHRI S. S. KOTHARI: The Public Undertakings Committee and the Public Accounts Committee are not dealing with all; they actually select some of the major items and pursue them with the Government.

SHRI A. K. ROY: Yes. That is what Members of Parliament do also. There is a limited period of time.

SHRI S. S. KOTHARI: And in many cases, the Government delays the replies to the Public Undertakings Committee and the Public Accounts Committee, and says that action will be taken or is being considered. And longer period passes and nothing happens. And no remedial action is taken. What do you suggest?

SHRI A. K. ROY: You can remedy that in Parliament because Government is subject to Parliament. Probably, one remedy will be to provide in the Bill that if adequate response is not given, those cases would be specifically brought to the notice in the Auditor General's Report.

SHRI S. S. KOTHARI: That could be a good suggestion.

MR. CHAIRMAN: The point would be that you cannot define 'adequate response'.

SHRI A. K. ROY: But the Auditor-General will not be irresponsible, and he will bring to notice only those cases where he has suspicion in his mind that it is deliberate. I am not going to give a long list of 5,000 cases.

SHRI S. S. KOTHARI: Three specific cases have been brought to the notice of the Committee where the Auditor General has no jurisdiction—The Food Corporation, L.I.C., and the Corporation like Jessops where 50.13 per cent is held by the Government. In these cases, the Committee could directly suggest that the Audit should be subject to further review by the Comptroller & Auditor-General. Any other suggestion?

SHRI A. K. ROY: My suggestion here is that there should be an over-riding provision in the Auditor General's Bill that notwithstanding anything contained in the Statute, in any Undertaking in which Government have say 33.3 per cent or 25 per cent or whatever amount of capital, he will have the right of Supplementary Audit. That is what I suggested.

SHRI S. S. KOTHARI: Another point is with regard to the audit of the accounts of contractors as in the United States of America. A suggestion has been made that where the contracts are made with the Government exceeding an amount of Rs. 1 crore or so, the Auditor General should have powers to look into the accounts of the Contractors, even though they may be private parties. Would you kindly give your views on this?

SHRI A. K. ROY: I myself do not think that the Auditor General can be equipped now for that. It will take some time, because if you accept the first suggestion, his scope will be very wide indeed. For him to go beyond that, it will take time. That is my remark in detail also in respect of audit of receipts. So far receipts have been completely out of the Auditor General's hands. Union receipts, income tax, central excise duties and customs came within his purview about 6 years ago. In the States, sales tax is within his purview, but I think one State has not yet agreed to give it to him.

Under the Bill, you are putting the entire revenue under him. That will take quite sometime to organise because it takes a great deal of time to recruit staff, train and organise it, because all these receipts are by legislation and one has to understand the import of it and how it is operated.

Take, for instance, income tax. I think it was taken over somewhere about 1962, but I do not think even today it is 100 per cent organised. It

takes time to train staff in this because the CAG's organisation by tradition has been trained to deal only with expenditure, not with revenue. To examine all revenue receipts needs a reorientation of mind which takes time to develop.

SHRI S. S. KOTHARI: While I am wholly in favour of strengthening the Auditor General's office, it has come to my notice—I had a discussion with the previous Chairman of the Central Board of Direct Taxes—that in certain cases the Auditor General's staff has been unnecessarily technical with regard to the ITO, his examining the IT assessment orders etc. to such an extent that there was almost legal quibbling and then at the highest level they had some trouble about development rebate being shown above the line and below the line, that is the distinctive line between profit and loss account and profit and loss appropriation.

SHRI A. K. ROY: The problem is this. Neither audit nor the income-tax department were used to it. The income-tax department suddenly found audit sitting on it. This was completely new. As I said before, these things take time to develop and organise. Initially, the audit people themselves did not know what their job was, what its scope was. They began to think that probably their job was to examine individual cases and see whether assessment had been properly done or not. Now the instructions to them were, 'Yes, you go through individual cases, but study them only to find out whether the system is operating all right or not.' Instead of worrying about the system, they began to worry about the individual cases. That was how initially some trouble started.

In the IT Act there is a special provision saying Government should not give any exemptions or reliefs not specifically provided therefor. When I was Auditor-General my instructions to the staff were: 'Please see to it that this is not allowed to happen'.

Again, all orders can be distorted in the process of transmission. They began to think that even an ordinary mistake made by an ITO amounted to a concession not allowed under the Act. That is how all these things started, but I believe—I do not really know; I am no longer concerned with the department—that things are settling down.

SHRI M. ANANDAM: So far as the staff is concerned, you had said that you had approached Finance Ministry a number of times.

SHRI A. K. ROY: I said I have to approach as a matter of routine.

SHRI M. ANANDAM: You suggested that a parliamentary committee might go into this question and do the needful.

SHRI A. K. ROY: That is a possible suggestion.

SHRI M. ANANDAM: During the last 20 years did you ever experience difficulty in getting what you wanted from the Finance Ministry or any other Ministry?

SHRI A. K. ROY: Yes; otherwise, I would not have mentioned it.

SHRI M. ANANDAM: There must have been some valid reasons for it.

SHRI A. K. ROY: I am not saying that the Ministry was cantankerous. But there is no doubt that they resent audit. They have always equated the Auditor General's staff with the staff of some subordinate offices. The gradations of staff in the Auditor General's office, clerks and officers, are *pari passu* with a subordinate Government department. Therefore, they are not regarded as separate, independent authorities doing a specialised kind of work, which is not the normal work of even the Secretariat. For instance, I myself having worked in the Secretariat as well as in the audit department think that a senior auditor in the AG's office does far more responsible work than a UDC in the Secretariat

with twice his pay. This is an assessment. But Government are not willing to see this. I am not suggesting that Government are always perverse. What I am saying is that they look at the requirements of the audit department in the same way as they look at the demands of a subordinate department.

SHRI M. ANANDAM: In order to maintain purity of audit, it is necessary to separate the functions of accountancy and audit. People who maintain accounts should not conduct audit.

SHRI A. K. ROY: I do not agree with you there. This question has already been gone into by the ARC and they have recommended something to Government. I believe Government have already accepted it—I do not know. But I do not accept the general proposition that in the way accounts in India are maintained and kept, there should be a separation of audit and accounts. I can elaborate on that if you like.

SHRI M. ANANDAM: So far as public sector undertakings are concerned—I am not talking of governmental accounts—if you depute an officer of the AG as FA to maintain accounts, it is always a handicap for the AG's staff who go there to audit the accounts properly for two reasons. One is that those who go there to audit are subordinate to the Financial Adviser there and they are not able to conduct an independent audit. This is borne out by experience in a number of cases where Deputy Accountants-General are sent as Financial Advisers. The staff of the Auditor General's office who go there for audit are persons of the rank of UDC who are much lower in rank to the Deputy Accountant-General. It is not possible for him to comment on the accounts as he would if he is an independent auditor. The very purpose of the audit is frustrated.

SHRI A. K. ROY: I think it is largely a personal factor. Mr. Shirali for

example is sitting here. When I was the Auditor-General he was a comparatively subordinate officer of the audit department. But he did not take any direction whatsoever from me. Take, again, a first class company like the Tatas. Their own chartered accounts, internal accountants, are quite often very senior to the auditors who go and audit their accounts but they are not afraid to do their duty because the two are performing different jobs.

SHRI M. ANANDAM: A subordinate is always afraid of his superior and you are speaking of exceptions to that general rule.

SHRI A. K. ROY: I was talking about my personal experience. When I was in the revenue department myself my proposals as chairman of the board of revenue were adversely criticised by the Under Secretary in the Expenditure department. The fact that I may be expenditure Secretary at some future time did not deter him.

SHRI S. S. KOTHARI: The officers are generally accustomed to the maintenance of single entry system of accounts and when they go to the public sector undertakings they are suddenly confronted with a first rate double entry system. That is why in the early stages the accounts of certain undertakings, Hindustan Steel especially, were not properly maintained and the statutory auditors found considerable difficulty. Matters were of course being sorted out. But would you say that public undertakings should recruit for their accounts department chartered accountants directly rather than take most of their staff from the auditor-general's office?

SHRI A. K. ROY: They are already doing so. You mention the case of the Hindustan Steel Ltd. There neither a chartered accountant nor a Government auditor would have been able to do in the earlier stages because the organisation started with a General Manager and a Stenographer. It is only when other staff arrived and payments began to be made that they

began to think of accounts. Actually when the accountsmen arrived on the scene, they were already in arrears for two years and nobody could sort all that out in quick time.

As regards the other point, when I was the Auditor General and we started commercial audit in right earnest we did make accountancy and book-keeping a very important subject of their examination and we sent our men to the chartered accountancy firms for four months or five months by arrangement with them so that they actually went round with those persons and saw how audit was conducted. We laid the foundations for that.

SHRI M. ANANDAM: You mentioned that the chartered accountants were conducting regularity audit in the private sector. I differ from you on that; there has been considerable enlargement in their work during the last 10 or 15 years they conduct efficiency audit and propriety audit. So it is not charitable to make a remark like that.

SHRI A. K. ROY: I did not mean that. They do efficiency audit but they do not submit their report to the shareholders but to the management.

SHRI M. ANANDAM: You can amend the Companies Act for that. When you appoint an auditor define and say specifically what exactly he has got to report on besides auditing the accounts. You can give directions.

SHRI A. K. ROY: When I was there instructions did exist telling the chartered accountants what other things they should see other than the regularity audit. Whether those instructions have been modified or withdrawn I do not know. But instructions were drawn up in consultation with a committee of chartered accountants.

SHRI M. ANANDAM: I understand that you want that the auditor-general should have more powers than what he has at present. Do you think

that a single authority should have plenipotentiary powers in a democratic set up?

SHRI A. K. ROY: You say this is the 'powers Bill'. What are his powers? His powers are only to report to Parliament.

SHRI M. ANANDAM: Don't you think there is a possibility of an error by the Auditor General?

SHRI A. K. ROY: The same as an auditor in the case of private sector company, to say what he likes about the accounts. He cannot have executive powers.

SHRI S. S. KOTHARI: In regard to bringing the lapses before the Parliament he must have supreme authority.

SHRI C. D. PANDE: In my thinking there are three offices in the set-up which should be highly respected by the executive side of the Government—the Chief Justice of the Supreme Court and the other Judges; the Chief Election Commissioner and the Auditor-General. These are the three institutions on which depends the efficacy of the democratic institutions. If they are not strong and independent, the executive will be prone to misuse its powers. In 1935, the entire budget of the Government of India was only Rs. 100 crores. Now it is nearly Rs. 4000 crores, apart from big corporations. It is the duty of the Auditor General not only to see that it is well spent but also to ensure that there is a regular checking of the costing.

My view is that all the corporations should be subject to the jurisdiction of the Auditor General. It is not correct to say that because a corporation is autonomous, the Parliament's jurisdiction over it is limited or that the Auditor-General has no powers to audit the accounts of that corporation.

So far as planning is concerned, about Bokaro Steel Plant we were told that it would cost Rs. 300 crores in the beginning. Now it is almost a Rs. 1000 crores. It should be the duty of the Auditor-General to point out in course of time whether it is justified. Of course, no plan can be air-tight and there may be a variation upto 5 or 10 per cent. But not 300 per cent. He should say how far planning has succeeded. He should also be able to look into the ministers' spending. Ministers' spending should not be sacrosanct.

The Auditor General should be absolutely independent and should not be dependent on the mercies of the executive for appointing his staff, etc. Apart from the usual regulatory accounting, he should have wide powers to look into the planning, cost accounting, propriety accounting, etc.

SHRI UMANATH: Who is giving evidence, Mr. Roy or Mr. Pande?

SHRI C. D. PANDE: I only wanted to say that I support Mr. Roy's views.

SHRI D. N. PATODIA: One of your principal recommendations is to widen the scope of the Auditor-General by including various types of corporations. There are two types of corporations. Firstly, there are corporations like LIC., Food Corporation etc., which although for the purpose of shareholding may not be wholly owned by the Government, for all practical purposes including financial investment, are Government organisations.

SHRI A. K. ROY: I have given the examples of Jessops and Company, Oil India, etc. In the case of LIC, we are not permitted entry at all.

SHRI D. N. PATODIA: Then, there are certain private companies to whom Government gives loans or Government contributes in the form of shares.

SHRI A. K. ROY: Where Government contributes a significant portion of the shares.

SHRI D. N. PATODIA: I concede that in the case of institutions like the LIC and FCI, it is only fair and reasonable that the Auditor General should have ampler power, because after all, the financial results and working of these corporations are to be scrutinised by Parliament and they are answerable to Parliament. The Auditor-General is the competent authority to go into them. Now, coming to the private corporations where Government may have a significant interest either in the form of loan or shareholding, which is another form of giving loan, would you think that by virtue of giving loans or contributing to some shareholding, the Government should be empowered through their nominee who is the Auditor-General to probe into the internal working and activities of those corporations? Or, do you feel that giving a loan is some sort of contractual arrangement between Government or their institutions on the one hand and the private corporations on the other and by virtue of those contractual arrangements Government is always entitled to ask for any information or clarification they like? What justification can there be for probing into their internal activities? I would go a step further. When a bank gives a substantial loan to a corporation, would you consider that the bank should have the right to appoint its own auditors to probe into the internal activities of the corporation? Extending it further, the World Bank gives loans to individual nations. Do you think the World Bank should have authority to appoint their own auditors to probe into the various activities of those nations?

SHRI A. K. ROY: I must distinguish between loans given by Government as Government and loans given by financial institutions. I was not referring to loans given by financial institutions at all, I was referring to the direct loans given by Government to organisations like the Oil India. There my suggestion is, whether it is loan or share capital,

when Government give a loan, they should couple with it the condition that the company's affairs will be subject to the audit of the Auditor-General. It is not necessary that the Auditor-General should exercise that power in each case, but that condition should be there, so that public money is safe. So far as banks are concerned, I know that they insist on all kinds of information. They do send their own people to go into those cases where they feel doubtful about the solvency of the loans. Banks take a commercial risk. Government has no business to take a commercial risk.

So far as the World Bank is concerned, it is a question of international politics. The World Bank is an organisation which gives loans, but it has no right or it does not maintain the right to audit but I know it for a fact that every year, three or four teams of the World Bank come here go into the details of expenditure by the Government, the performance of the Government and the results, and it is only on the basis of their examination, a detailed examination, that they continue any further loan. So, they do conduct some examination, though you may not call it a technical audit.

SHRI D. N. PATODIA: So, do I take it from you that your proposal to extend the scope does not or should not apply to such loans as are given by financial institutions owned by Government?

SHRI A. K. ROY: My point is this. According to any suggestion, all these financial institutions are ultimately owned by the Government money and they will be subject to Government audit. In fact, the IFC is already submitting to Government audit and through that the Auditor-General can find out whether the loans given by them are being properly utilised or not.

SHRI D. N. PATODIA: That is a different thing. For example, the IFC gives to company 'X' a loan, a company which is engaged in the manufacture of rayon textiles. But should

I take it that, according to what you said, the scope of audit by the Auditor-General would be limited to audit of books of the IFC as they relate to the company and not to all the books of the company itself.

SHRI A. K. ROY: Not directly.

SHRI D. N. PATODIA: Do you know of any such cases where the Government of India or the State Governments directly give loans without going through the media of these institutions to any private commercial corporation?

SHRI A. K. ROY: One is the Oil India and the other is the Atul Products in respect of which the Government give a loan direct. Mr. Shirali will know it better.

SHRI A. R. SHIRALI: There was a case.

SHRI A. K. ROY: It is only my recollection. I do not read the reports nowadays. From memory, I can mention two cases where the Government have given loans: Rs. 15 crores to Oil India and I think Rs. 3 crores to Atul Products.

SHRI D. N. PATODIA: Your proposal is restricted to such cases like Oil India or Atul Products where you feel that there is a significant interest of the Government

Then, I have one more question. There has been a suggestion that the Auditor-General should undertake performance audit with regard to the public sector undertakings. What is your opinion particularly in view of the fact that over all these years the performance of public sector undertakings had been far from satisfactory both in regard to the working and in regard to the maintenance of accounts and the publication of accounts?

SHRI A. K. ROY: The public sector undertakings have been coming in for a lot of criticism because of the reports of the Auditor-General. It is the Auditor-General's reports which have brought to light examples of wasteful

expenditure, buying of excess machinery or bad selling or anything of that kind. Just to give you an instance, I am myself a Director of a company in which I found last year that they had bought new equipment worth about Rs. 30 lakhs, and within two years, the Managing Director who succeeded the previous man said 'Rs. 6 lakhs worth of machinery had been bought wrongly and you have to sell them away like scrap.' That never came to the notice of the shareholders. If such a thing had happened in a Government concern, the Audit Report and the Public Accounts Committee's report would have created a storm over it. It is the reports of the Auditor-General which have brought the failures of the public sector undertakings so much to the notice of the public eye. I do not know what performance audit technically means, but I do know that the Auditor-General should bring out, as he does bring out today, cases of losses of money on account of wrong purchases, large inventories, bad sales, wasteful expenditure and other things, whatever he can find, including what Mr. Pande said—faulty estimates. I know of a case in the private sector where the original estimate was Rs. 1 crore which went up to Rs. 3 crores subsequently, but nobody ever asked a question about it. But in the case of a public sector undertaking say, Bokaro, if the original estimate of Rs. 50 crores now goes up to Rs. 1,000 crores, we shout about it, because the Auditor-General brings it to notice. That is my whole point about bringing the public sector undertakings and all kinds of public investments within the scope of the Auditor-General's audit that these things are exposed. In the case of the private sector undertakings, the sins remain unknown to the public.

SHRI D. N. PATODIA: So should not this performance audit, which you said will be done or is being done, be done with greater frequency, say, once a quarter or once in three months or so?

SHRI A. K. ROY: I do not think that you can take it that far. I think even once a year is bad enough for the administration; otherwise, the administration would be engaged only in audit and not in any other job.

SHRI D. N. PATODIA: Would you suggest that these public sector undertakings should have at least publications of quarterly accounts which will be another way of keeping a good check on the performance of the concern, as the STC is already doing it or has already started doing it?

SHRI A. K. ROY: That is not part of the Auditor-General's functions. I do not think all of them can do it. Some of the concerns may be able to produce it, a monthly statement or a quarterly statement. But these will be merely accounting results and not results of performance; they will just show that the accounts for the first three months and the balance sheet stand like this, or that the profit and loss account stands like that. That will not give you any idea of the working of the institutions.

SHRI C. D. PANDE: Mr Roy, you have said that some sins are being committed in the private sector and they go unnoticed, whereas the people "shout"—that is what you said—about the public sector undertakings when anything goes wrong there. But there is a difference between the two. In the public sector corporations or undertakings, you have hundreds of crores of rupees invested in one project. For example, there is the Bokaro steel plant; there is the Heavy Machinery Building Plant at Ranchi. If we bungle there, and if we do not produce the goods according to the schedule, if we do not start work, the suffering is for the whole nation; whereas if a bungling is there in any private sector concern having two or three crores of involvement it will be just the funeral of a few shareholders only. Therefore you cannot compare both these things.

SHRI A. K. ROY: What I was trying to say was this; it is because of audit that these things get exposed in the public sector. In the private sector also the Government should order the chartered accountants to do that kind of audit. But I do not agree that in all cases the interests of the taxpayer or the ordinary person is not almost the same. Take a company like Tata Iron and Steel Co. I think there are hundreds of thousands of shareholders in it, and a bad working of that company will affect them as much as the bad working of Bokaro. It is a question of limit only.

SHRI UMANATH: You raised the question of hours of work, appointment of staff and furniture etc. I understand that the present procedure, in regard to the CAG's budget, is that it is discussed between the Deputy CAG and the Finance Ministry officials. If there is any point of difference between the two,—disagreements are there—the CAG and the Finance Minister will discuss the point of difference. I understand that is the procedure. I would like to know from you whether there had been any occasions when the CAG had to discuss with the Finance Minister in view of the disagreement between the Deputy CAG and the Finance Ministry officials? If not, will I not be correct in coming to the conclusion that there is not much of difference of opinion between the Ministry and your department?

SHRI A. K. ROY: I can talk only from my personal experience. I cannot say anything about the experience of either my predecessor or my successor. During my period there were many occasions when there were differences. My budget officer will come and say "I wanted so much money, I had budgeted for it but my budget has been pruned; so I am very sorry, I cannot help you because I have no money".

SHRI UMANATH: During the discussion between the Finance Ministry officials and the Deputy CAG of the budget the Ministry people might give all those reasons and then they might

settle them. If they are not settled at that level, under the procedure you discuss it with the Finance Minister. Can you tell me on how many occasions there were discussions because of disagreement between the CAG and the Finance Minister?

SHRI A. K. ROY: No Auditor-General would rush to the Finance Minister on the slightest provocation. During my term I have done it about a dozen occasions.

SHRI UMANATH: During those discussions you could not come to an understanding with the Finance Minister?

SHRI A. K. ROY: I do not say I have quarrelled with the Finance Minister. My point is slightly different. The Finance Ministry have a whip hand. I will give you a case. In one case the Finance Minister agreed with me, but the Finance Ministry did not. By the time the orders were issued the office people raised certain objections. That Finance Minister went away and his successor refused to implement it. I know that case because it took place during my term.

SHRI UMANATH: You mean to say that in case of disagreement at the lower level when you took up the case with the Finance Minister, your viewpoint was turned down by the Finance Minister?

SHRI A. K. ROY: Oh, yes; in so many cases.

SHRI UMANATH: Secondly, you have given the contrast with regard to increase in posts of officers in the Government of India and in the office of the CAG. I have gone through your memorandum. But I understand that the posts of most of the Deputy A. Gs. have been upgraded and some posts of A. Gs. have been added in some of the offices. There are two ways of doing it—one is increasing the number of posts and another is upgrading the posts and giving the existing incumbents certain extra allowances. You

have followed the latter course. So, how do you say that it is not sufficient? You want still more.

SHRI A. K. ROY: It is not enough to upgrade the posts of clerks or subordinate officers. You have to have people at the top who are of a level to discuss matters with their opposite numbers at equal level. Today, the so-called Additional Deputy CAG is much below a Joint Secretary. He cannot get an audience before a Secretary. The Secretary thinks he is too small a person to discuss matters. He does not say so, even though I do not know what he thinks. But the Additional Deputy CAG himself thinks that the Secretary is too big for him to discuss a point and so he goes to the lower level, to his own level. Therefore, it is not enough to increase the posts of Deputy CAG. It is also necessary to have at the top people of a level who can talk on equal terms with higher officers in the administration.

SHRI UMANATH: In your memorandum you have stated that the status of the A. G. should be equal to that of the Chief Secretary and that some extra expenditure should be incurred to restore that position. What about other categories of staff in the office of the CAG? Have you got any proposals with regard to them?

SHRI A. K. ROY: Of course, I have. A senior auditor in the office of the CAG at present gets about Rs. 200 but I think he does work of a quality and quantity equal to that of an Assistant in the Secretariat. Left to myself, I will increase his pay. Here I was giving the instance of disparity at the top.

SHRI UMANATH: Since you have referred to the top I was enquiring about the people below.

SHRI A. K. ROY: When you raise the pay of the Accountant-General you will have to re-organise the whole thing.

SHRI UMANATH: You want the staff under the administrative control of the CAG to be governed by a different set of rules and conditions of service. If so, what is the authority which should prescribe that?

SHRI A. K. ROY: Under the Constitution, the conditions of service of the staff of the CAG's office are prescribed by the President in consultation with the CAG. But in many cases . . .

SHRI UMANATH: But consultation is not concurrence. That is obvious.

SHRI A. K. ROY: In one case, the Home Ministry wanted some change. I opposed it. They issued the orders as they wanted "after consultation with CAG". In another case, the Finance Ministry wanted certain things to be done. I opposed it. Yet, they issued orders for everybody except for the officers of the Audit Department.

SHRI UMANATH: But what will be the authority to prescribe the conditions of service of your organisation?

SHRI A. K. ROY: Today, although the staff of the CAG is working under the CAG, the staff is not that of the CAG; they are governed by government regulations. I am not speaking so much of the regulations and orders. Take the case of the strike in August 1960 and September 1968. First, the government wanted to be very strict and then they climbed down. It was very difficult for the CAG to know what was happening. My association told me "The Home Ministry has said something in Parliament; why don't you implement it?" I said that I cannot do anything until I get orders of the government. After all, the CAG cannot act on the basis of certain speeches, reported in the press, said to have been made by the Home Minister or the Finance Minister. Secondly, when the staff want redressal of their grievances, now they go to the Members of Parliament and the Finance Ministry, and not to the Auditor-General, because they know that the

Auditor-General is powerless, and finally everything will have to be decided by the government. I want to avoid that position. I want the staff to feel that they are serving the CAG just as the staff of the Supreme Court feel that they are serving the Supreme Court. In the private sector the company and the auditor are poles apart; they have nothing to do with each other. The company does not govern the conditions of service of the auditor's staff. The auditor appoints whomsoever he likes on whatever salary he thinks fit. Here the Auditor General is supposed to audit but the tools in his hands not only quantitatively and qualitatively but also in loyalty owe their loyalty to Government. That is completely wrong in my opinion.

MR. CHAIRMAN: What will be done in regard to restoration of recognition to the union of the staff of the Auditor General?

SHRI A. K. ROY: The Auditor General will follow the orders issued by Government.

MR. CHAIRMAN: For all practical purpose it is the Government which has the power.

SHRI A. K. ROY: Yes.

SHRI UMANATH: Some of the work of the CAG in regard to auditing and accounting is being transferred under orders of the President which in effect means the executive. For example, the work of auditing and accounting of the telecommunications unit has been taken away from the CAG and handed over to the P & T. I would like to know from you whether it is proper for work which is under the CAG being transferred to the executive by an executive order and whether the working of those works which have already been transferred been beneficial or not.

SHRI A. K. ROY: I myself do not know what is happening in the P&T Department. This matter was being discussed at the time I was there. But as to whether the executive order is valid must depend upon the circumstances of each case. For instance, take the P&T Department. I do not see any reason why the Audit Department should see whether the remittance charges for money orders—20 paise or 30 paise—are being charged correctly or not. Those are minor details of executive administration and I do not see why they cannot be transferred. Where really effective auditing is concerned, it should remain with the CAG. For example, there was a huge telegraphic check office. I do not know if it still exists or not. This office used to get millions of copies of telegrams every day for conducting a percentage check of charges levied on the telegrams. I do not think there was a single case where the difference was more than a rupee. It was a waste of time doing it at all. It is really administrative work and it should have been done by the supervisory staff at the telegraph office itself instead of being sent all the way to Calcutta with 700 or so clerks dealing with millions of telegrams. These are matters where one can agree to their being transferred. But work of audit cannot be transferred. The Constitution gives the fullest right to the Auditor General for auditing the Government accounts and the Government cannot transfer his work even by an order of the President.

SHRI UMANATH: Has the work of audit and accounts of telecommunications been handed over to the P&T?

SHRI A. K. ROY: I will be very surprised if I am wrong but the work of audit cannot be transferred. In fact, before this Bill came into existence there was a point raised as to who will audit the Auditor-General's expenditure and the idea was that the Finance Ministry should audit them. I protested against it not only on principle but also on the constitutional ground.

Under the Constitution the Auditor-General has to report on the accounts of the Union and I said that the accounts of the Union included the accounts of the Auditor-General. So, you just cannot transfer it. The matter went up to the Attorney-General and he agreed with me. Whatever the desirability, until you amend the Constitution it cannot be done. Therefore I do not think that the work of audit has been transferred; the work of accounts may have been, but I do not know.

SHRI PRAKASHCHAND B. SETHI: As far as the expenses of the CAG's office are concerned, I find that from Rs. 5.25 crores in 1950-51 they have come up to Rs. 25.94 crores in 1969-70. This itself goes to show that the strength of the CAG's staff has fairly well increased.

SHRI A. K. ROY: I would agree with you there and I will tell you why.

SHRI PRAKASHCHAND B. SETHI: Had that been the case we would have had repeated representations, arguments or discussions from the CAG that his strength was not increasing in keeping with the requirements or work. So far as I know there has been no such serious argument from his side.

However, the total strength of a particular department or office will have to be fitted in the overall budgetary position. Even with regard to the Supreme Court, whatever authority they have to appoint is within the framework of the budgetary position that is indicated to them. Therefore we cannot envisage a position where the CAG's office could enroll or enlist any number of persons without any provision that they have to function within the overall budgetary limits.

You have also raised the question that the Supreme Court has the final authority with regard to emoluments, discipline and other matters. I find from article 146, clause (3), of the Constitution that the administrative

expenses of the Supreme Court, including all salaries, allowances and pensions payable to or in respect of the officers and servants of the Court, shall be charged upon the Consolidated Fund of India, provided that the rules made under this clause shall, so far as they relate to salaries, allowances, leave or pensions, require the approval of the President. Wherever the approval of the President is provided it means approval through the Finance Ministry. Therefore it is not as if it were that whatever salary, allowances or emoluments have to be given to the Supreme Court officers, head clerks or clerks could be fixed not keeping in tune with the overall salary position of other Government departments. Whatever may be the nature of work, an head clerk in the CAG's office or in the Finance Ministry or anywhere else could not be treated differently as far as service and emoluments are concerned; otherwise, it could create a situation where the CAG would say that because his head clerk is doing important work he would get this much of emoluments or that he is free to fix the emoluments without consultation with the Finance Ministry. I would like you to throw some light on some of these points.

SHRI A. K. ROY: You said that the budget of the CAG has gone up five times. May be, it is six times. But not only the Budget of the Government but the variety of work has gone up very much more. As Shri Pande was saying some time back, I came to the Government of India in 1939 when the total Budget of the Government of India was Rs. 101 crores, to be precise; today it is something in the region of Rs. 5,000 crores. Apart from that Rs. 5,000 crores, every State's budget has gone up. Take the State of UP. Once upon a time I was posted there. In the year 1935 the budget of UP was of the order of Rs 12 crores; today, it is more than Rs. 500 or Rs. 700 crore. Also, see the variety of work. A number of institutions have grown up. See the variety of Government's developmental expenditure.

All these lead to much greater work in audit than could have been thought of at that time. Those days all that the Government did was to pay salaries and occasionally do one or two irrigation works. Today, apart from salaries, the growth of expenditure has been absolutely enormous. Therefore, the fact that it has grown five times does not really show that the Audit staff has been dealt with adequately. The hon. Minister said that the Auditor General should not be given a free hand in the matter of appointment of staff and all that.

SHRI PRAKASHCHAND B. SETHI:
I have not said so.

SHRI A. K. ROY: I am sorry if I put it so bluntly.

MR. CHAIRMAN: He only asked whether, when there was anything said on your side, the Government said, "No", and, if so, how many times.

SHRI A. K. ROY: I will not be able to recollect the exact details of all the recommendations made and the appointments made. I think, when you look into the files, you will be able to discover them. But I do not suggest that the Auditor General should be given unlimited powers. As far as the Supreme Court is concerned, I do not say that they have unlimited powers about staff but they have got powers about appointments. Then, comparing the budget of the Supreme Court with that of the C.A.G. is, I think, an unrealistic comparison. The Supreme Court has, in any case, a very small staff. Its staff consist only of some reporters and a few library staff, etc. whereas the C.A.G. has a staff of the order of about 60,000. I really can't say what it is today.

I do not suggest that the Auditor General should have unlimited powers. I myself said that the Auditor General's powers should be circumscribed by some kind of a committee, a Parliamentary Committee or whatever

committee you like. I do not suggest that the Auditor General should be the lord almighty, sanctioning staff, scales and salaries and so on and so forth by himself. What I do say and repeat is that it should not be in the hands of the authority whose auditor he is.

For example, you take the case of even the private sector. There, the law prescribes that the auditor and his emoluments will be prescribed not by the company but by the share-holders because it is in the interest of share-holders that the audit is done. It is also in the interest of the company. There are good companies who would like to have internal audit and who would like to see that there is internal efficiency and all that. There are good companies and first-class companies. But so far as the public audit is concerned, it has to be in the interest of share-holders and in the case of an executive Government, the Parliament and the public are in the position of share-holders. The Parliament and the public should see to it that the audit has adequate resources in order to fulfil the obligations placed on the Audit.

Now, for instance, you take the audit fees. I am myself today the Director of a dozen companies. I know, in the last four years or so, the audit fees have gone up almost everywhere by at least 20 per cent, if not more. I have myself seen that the shareholders of the companies have themselves suggested that more money should be given to audit so that they can discharge their functions more effectively. So, I am really unable to change my views. I think, we are talking on a slightly different wavelength. I am not asking for hundred per cent powers for the Auditor General.

MR . CHAIRMAN: You just now said that you want more resources. What the hon. Minister said is that when your Department asks for more

resources, the Government have not denied it. Is that true?

SHRI A. K. ROY: It is very difficult to answer that question in that manner. But when the Budget Officer comes and says, "This is all the money for you and I cannot give you more", well, you can imagine what it means.

SHRI J. H. IMAM: I agree that the independence of the Audit should be maintained and necessary conditions should be created to see that it works efficiently. But my experience is that irregularities and mal-practices are brought to light by the Audit very late, sometimes after years, so much so that these irregularities are placed before the House or the Public Accounts Committee 4 years or 5 years after the irregularities have actually been committed and no action could be taken against those who are responsible for these irregularities either because they are no longer in the service or some of them will have even disappeared from this world. What I want to know is: is there any rule in the Audit that the accounts of the previous year must be audited during the current year or is there any time limit because it is only that a time limit that will prove effective and act as a deterrent for the commission of such mischief in the future?

SHRI A. K. ROY: I think the hon. Member was not present when I made this point. The delays occur in discussions with the Government and in reporting the matter. There is no rule at all, but there is an attempt to present the audit report within the year following the year to which it relates. But may I suggest one thing in this connection? All that the Auditor-General has the power to do is to submit the report to the President and it is for the President to cause it to be placed before the Legislature.

SHRI J. M. IMAM: Where does this delay occur? What is the practice? Do you at present audit all the accounts

of the previous year? Is it being done at present or not?

SHRI A. K. ROY: The point is this. The C & A G tries to present the report within the year following the year to which it relates but on matters where loss of money occurs or matters where irregular contracts have been placed, the report cannot be presented until there has been a full discussion with the Government, discussion not verbally but in writing and files move about. As I was saying earlier there had been delays in doing that. If there is a delay in doing that, well, the audit report has to be delayed on that particular account. I was myself suggesting earlier that there must be some kind of an understanding for the Audit to enforce replies from the Government. But the second delay that takes place is that under the Constitution the audit reports are sent by the Auditor General to the President or to the Governor as the case may be. Now in the case of the Union there has never been any particular delay—may be a month or two or may be the Parliament was not in session exactly at that point of time. So there has not been any delay there. But in certain States, the report has been with the Government for more than a year before it is presented to the legislature. I think in the case of Bihar it was presented 18 months later. That is a matter not between the Auditor-General and the Government because the Auditor-General's function is over as soon as he submits his report to the President or the Governor as the case may be and regarding subsequent delays it is a matter for the Legislature to take it up. It is a watchful legislature alone which can solve this problem. By merely holding up the Audit Report although the Government has no right to change even a comma or semi-colon, it delays the report to the advantage of the executive because, as the hon. Member says the matter ceases to be of interest and the man concerned is dead or has retired. But that has not happened in the case of the Union.

SHRI J. M. IMAM: I am told for

example that some transactions that related to the purchase of road rollers and some ammunition were not placed before the PAC for 5 years or 6 years and they came up after the persons concerned left the office and no action could be taken against them.

SHRI A. K. ROY: There is misunderstanding about this. There is a stage at which this irregularity can be discovered. Supposing a contract is placed for some ammunition, the contract is all right. The Auditor-General will not report on it. But when the contract is fulfilled after 3 or 4 years and the ammunition is actually supplied and flaws or defects were found in it and it is found that we have made a wrong purchase, it is only then 4 or 5 years later that the Auditor-General reports on it.

SHRI S. S. KOTHARI: That is exactly the case.

SHRI A. K. ROY: In the particular case of road rollers the placing of the order is at a point. Order has been placed after the negotiations and inviting tenders. But as far as I know from the newspaper reports, the mistake was that the man used to produce the same accounts for the road rollers within his stock and also showed them as supplied to the consignee. That kind of mistake you cannot discover until 4 or 5 years later, until the supplies are made and until the executive have tried to go into it and found it out.

SHRI J. M. IMAM: You must suggest some means of discovering this.

SHRI A. K. ROY: As I said, the only means I can suggest is: enforce something by which Government will more expeditiously deal with the queries raised by the Audit but with regard to the delays that will inevitably occur on account of the transaction itself being late, I cannot suggest anything for that.

SHRI J. M. IMAM: For example I may give you one instance in Mysore. There is the Mysore Iron & Steel

Works. Now it has incurred a loss of some crores. It is very difficult to hold anybody responsible because of so many Directors and others. Still the loss has to be borne by the Government or by the public without apportioning the responsibility. In such cases, if the audit is not done immediately and the persons responsible for the loss are not brought to book immediately, audit does not serve any purpose at all in guarding the finances of the State.

SHRI A. K. ROY: May I also just say this? Audit is not a 100 per cent audit. It is only a test audit. The Auditor-General does not go into the details of the expenditure and review each item each year. That would require an army of staff and it is not practicable. What the Auditor-General does is a test audit. After all it may quite well be that there are a large number of transactions in which there are faults and they have not been brought to the notice of the Audit.

SHRI J. M. IMAM: How can the Government be held responsible?

SHRI A. K. ROY: As I say, it is really for the Parliament to decide. If you want 100 per cent audit of each transaction, then there will have to be an army—an increase of staff not 5 times but 500 times.

SHRI J. M. IMAM: I think in each department there is a system of internal audit?

SHRI S. S. KOTHARI: Even there it has to be a test audit.

PANDIT BHAWANIPRASAD TIWARI: In your memorandum you have said regarding pension:

"...in the matter of pension C.A.G. is being treated miserably. Either the amount of pension should be considerably increased or the disability he suffers from should be removed."

You have not given as to what amount you propose for pension and you have not elaborated it.

SHRI A. K. ROY: May I say this? I have not done that for this very good reason that to-day under the constitution the disability of a retired Auditor-General from accepting an office under the Central Government or the State Government arises from a provision of the Constitution and without changing the Constitution, you cannot give this latter right. The only thing you can do is to increase the pension. I think there have been some mistakes somewhere because far from increasing the pension, it has been decreased in the case of non-ICS officers. If you take into account the value of the gratuity, the total amount comes to something of the order of Rs. 14,000. I have given it in my memorandum. I am myself completely unable to see why this disability should not apply to Judges of the Supreme Court who give decisions on matters which affect Government much more seriously than anything the Auditor-General can bring out in his audit report. They are lapped up for service immediately after retirement. There you do not think that it is necessary to have independence but in the case of Auditor-General you want this disability. I entirely agree that this disability should exist, but do compensate him by some reasonable pension.

PANDIT BHAWANIPRASAD TIWARI: My question was: if the disability is removed, you will not like the increase in the pension.

SHRI A. K. ROY: Then I won't bother.

PANDIT BHAWANIPRASAD TIWARI: If it is not removed, what increase would you suggest in the pension?

SHRI A. K. ROY: Same as the Supreme Court Judge.

SHRI THILAI VILLALAN: You have said that serving under the Ministry of Finance itself is a hindrance.

SHRI A. K. ROY: I have not said that.

SHRI THILLAI VILLALAN: What will you suggest for preservation of independence for the C.A.G.? There are three types of people who can be appointed as C.A.G. The first type is persons in service. The second type is persons who have retired. The third type is persons who have no office in the Government. Can you suggest, for the reservation of independence of the highest office, as to which type of people can be appointed as C. & A. G.?

SHRI A. K. ROY: It is very difficult to lay down a formula because there are good many people available in these three categories you have named. But, normally, I would suggest that this should be limited to people who have had administrative experience of Government. For instance, by that, I do not limit it to officers of services because, there may be ministers in the States or in the Centre who have had long experience of administration may be fully competent enough. In that case it would be difficult to suggest a formula. But what I do think is that just as in the case of the judges of High courts and the Supreme Court—I do not know whether it is law or Constitution which lays down this—the Constitution or Law lays down that the Chief Justice of the Supreme Court or the High Court should be consulted by Government before appointing a judge. Here you cannot have a third independent authority. But, I do not think that the serving Comptroller and Auditor General should be consulted in the matter of appointment at least to serve some semblance of correct choice because, to-day, it is purely an executive decision. The appointment by the President means appointment by the Minister. It may become a political appointment. This

is a serious thing. Here I am speaking as a citizen because I am not working now as Auditor-General. I am speaking purely as a citizen. I think that there is a grave danger of this being turned into a political appointment. I think there should be some independent authority who is not afraid of expressing his opinion associated with this.

SHRI THILLAI VILLALAN: I have one or two more questions to ask. You, Sir, have stated in your memorandum that the powers have been given to the C. & A. G. but there is no sanction behind them.

Can you suggest any other mode of sanction?

SHRI A. K. ROY: As I have said already, we cannot lay down a rule for the purpose. But what I think is that it should be the duty of the Auditor-General to do that. That should be laid down.

SHRI THILLAI VILLALAN: You report it only in the report.

SHRI A. K. ROY: The Auditor General cannot be given the executive powers to punish anybody. That should not be done. He is after all an auditor. And he cannot interfere with the executive functions of the Government.

SHRI THILLAI VILLALAN: My last question is this You have also stated in your memorandum that the working of a particular ministry whose auditing of and on is itself a handicap or hindrance for the preservation of the independence. At the same time you have also stated that there should be no bar for a further governmental office after his retirement. Is it not contradictory?

SHRI A. K. ROY: I am sorry I could not follow you.

SHRI THILLAI VILLALAN: First you have stated that for the preser-

vation of independence, you should not be under any ministry. You should act just as a Supreme Court Judge.

SHRI A. K. ROY: The Auditor-General is not under any ministry at all. What I wanted to convey was this. For staff requirement he has to go to the Ministry of Finance. The Minister explained that even for the Supreme Court, for staff requirement, and for money the Chief Justice has to go to the Finance Ministry.

SHRI THILLAI VILLALAN: My question is not that. After the retirement, you say there should be no bar for further governmental office for the C. & A. G. The Supreme Court Judges are not barred.

SHRI A. K. ROY: I did not say that. What I said was that you must increase the pension. If you think that accepting office after retirement is not a bar to the independence of the Supreme Court, I do not understand why it should be a bar to the independence of the Auditor-General. But I must recommend that the bar should exist. At the same time you must compensate him for this bar by an increased pension. That is all I wanted to say.

SHRI J. M. IMAM: After conducting the audit you submit your report to the President. He refers it to Government. This involves quite a deal of delay. Is it not possible to make a provision under the law to present your report to Parliament itself direct?

SHRI A. K. ROY: The Constitution does not allow that.

SHRI J. M. IMAM: You can send it to President but a copy might be sent to the Speaker or to Parliament.

SHRI A. K. ROY: I do not know—I am not a constitutional lawyer.

MR. CHAIRMAN: The UPSC sends its annual report. It is placed before Parliament immediately. Don't you send an annual report?

SHRI A. K. ROY: I may tell you that so far as the Centre is concerned there has not been any delay in sending the report to Parliament. Some State—as far as I recollect Bihar is the most notorious State—has made considerable delays in submitting the report. The only remedy for this is not to infringe the Constitution. The members of the legislatures are more aware of their rights who can force the government to present it because the government have nothing to do with the report. It requires only authentication by the Minister that it is a genuine report. That is all that this requires Government have not powers to change a comma, semi-collan etc. in the report. So far as the report is concerned, government has not the power to modify it. That being so why should there be a delay?

SHRI PRAKASHCHAND B. SETHI: Wherever an elucidation or explanation is needed, to that extent some modification has to be made.

SHRI A. K. ROY: That they can not do. Once the Auditor General has signed the report and submitted it to President, this cannot be altered.

SHRI PRAKASHCHAND B. SETHI: Suppose I have to elucidate certain information. Then I shall have to consult.

SHRI A. K. ROY: I am not saying that so far as Union Government is concerned there has been any delay in presentation of the report to Parliament.

SHRI UMANATH: You said that in the matter of appointments Government must consult the C. & A.G. And you compared that to the appointment of Supreme Court Judges. In that connection the Government consults the Chief Justice. That comparison here will not help because the C. & A.G. is the chief of the entire organisation. The Chief Justice is the chief of the entire judiciary. Therefore, for the appointment of a judge of the high court he is consulted.

But, for the appointment of the next Chief Justice, the existing Chief Justice is not consulted. So, how can you compare this with the C. & A.G.?

SHRI A. K. ROY: I was not comparing this with that.

SHRI UMANATH: If it is an appointment under the C. & A.G., then he should be consulted.

SHRI A. K. ROY: As I said already I am not comparing that. I was saying that there should be a procedure for consultation with an independent person for the appointment of C. & A.G. Otherwise there is a grave danger of the appointment being political. So the only remedy I can think of in the circumstances is to consult the serving C. & A.G. My principal objection is that today it is an executive appointment. But it may be used for a political purpose.

SHRI UMANATH: For appointment of Chief Justice the question of political consideration can come in whatever may be the procedure. That was what I was saying. And so the comparison here is not apt.

SHRI A. K. ROY: There is a difference. Take the case of the Chief Justice of a High Court. As long as he sits in the court the Chief Justice is not different to any other judge. There are very few decisions of the Supreme Court which are taken by one judge. Whether it is a Bench consisting of three, four, five or seven judges or whatever may be the number, as a judge the Chief Justice has no more powers than that of any other judge. And even if he is a political animal he can not influence the other people. Here the Auditor General is one who is independent and if you make him a political animal, then you are vitiating the whole purpose of audit.

SHRI M. ANANDAM: Is it for you to suggest minimum qualifications?

SHRI A. K. ROY: I do not think so.

SHRI M. ANANDAM: As in the case of a High Court Judge, experience of 10 years has been fixed, similarly you can fix something like that for appointment.

SHRI A. K. ROY: You see, that particular qualification does not mean anything. For 10 years he might have been a sleeping lawyer. My whole point is that you must have safeguards against the Auditor General being a play thing of politics.

SHRI S. S. KOTHARI: In order to obviate the delay in the report, would you suggest that a copy of it should be sent directly to the Parliament and the Speaker?

SHRI A. K. ROY: I do not think it can be done under the Constitution.

SHRI PRAKASHCHAND B. SETHI: Whether it is desirable?

SHRI A. K. ROY: I think a watchful legislature can even see to it that the Government functions properly. On that really I have no opinion.

SHRI VASUDEVAN NAIR: You have pleaded for increase in pension. I think that should be seriously considered. But that is being recommended by you in view of the fact that after retirement you are forbidden any post or taking up work under the Government Department. But today another big field is left for such officers.

SHRI A. K. ROY: I have taken full advantage of it myself.

SHRI VASUDEVAN NAIR: Now Government has laid certain restrictions and debar such high officials from taking some posts after retirement because they want to see that they function most impartially, with great amount of independence, without any fear of favour. So, today, these departments are very much connected with economic activity and

you are auditing the accounts of departments which are very closely dealing with private sector also.

In every case very serious financial matters concerning both Government Departments and Private Sector are coming before the Auditor General for Audit.

SHRI A. K. ROY: The Auditor General today sits in an ivory tower. He has nothing to do with anything in the Private Sector. He is not even remotely concerned with private sector people. He is auditing only government accounts and public sector accounts. The only people he comes in touch is Government officials and non-officials whom he some times sees are the chartered accountants who are appointed as auditors in public sector undertakings. For the number of years of service as an Auditor General he forgets the public and the people very much forget him. It is not like the case of a Secretary to the Government who is dealing with the cases of people in the Private Sector. In fact for six years I remained as an Auditor General, I forgot that private people existed.

SHRI VASUDEVAN NAIR: For the Auditor General, I do not say that he is connected that way when he is in office. Take the case of Ministry of Steel or some such other Ministry. There are cases of collusion between some officials and private parties. Is it not better that we even debar such a top official taking a post even in the Private Sector, after retirement so that he can sit in judgement over such cases?

SHRI A. K. ROY: When he ceases to be the Auditor General, he cannot sit in judgement over those cases at all.

SHRI VASUDEVAN NAIR: When the Auditor General is in office....

MR. CHAIRMAN: He may contemplate later on. Suppose there is a deal between the Government and Tatas and there might be some connivance.

SHRI S. S. KOTHARI: There is a remote chance.

SHRI A. K. ROY: I get your point now. What you are saying is supposing the Auditor General is dealing with the contract. Would he not be concerned with his future with Tatas, Birlas and Jains whatever they are? The point is that the Auditor General in his official capacity is dealing only with the activities of Government.

Supposing a contract has been placed. Whether the contract has been rightly or wrongly placed does not concern the contractor at all. If a high price has been paid it is the person in Government whom the Auditor General is chasing. The Auditor General is not chasing the Tatas for taking higher price. It is the business of the businessman to do so. Therefore, he does not at all see the papers of the private company or he does not even discuss with the private company or even the private company does not know that the matter is subject of audit because there is no dealing with them. He is really questioning the propriety of the Government authorities dealing with that matter.

SHRI VASUDEVAN NAIR: But the private company may not like you to question the Government official on that matter because it is exposing the private company.

SHRI A. K. ROY: But I cannot say how that question can come?

SHRI VASUDEVAN NAIR: On account of collusion with the private company.

SHRI A. K. ROY: There may be collusion between the Government and the Auditor General that I can understand, but the collusion between the private company and the auditor general, I cannot understand.

SHRI VASUDEVAN NAIR: The collusion between the private com-

pany and Government Department official as is being brought out by the Auditor General may not be liked by the private company. This collusion which the Auditor General can do (while in service through the official of the Government) with the private company should not be there.

SHRI A. K. ROY: That kind of independence you cannot maintain. In the case of Judge of the Supreme Court who is dealing with the Bank Nationalisation may have in mind being a Director of the Bank. That is a kind of remote possibility. I do not really want to answer it.

MR. CHAIRMAN: You have said that when you are dealing with the Government as an Auditor General and trying to get some explanation, many times the information is held and you cannot submit your Report. You have to wait till that thing is

included. Can you suggest some time limit?

SHRI A. K. ROY: I do not think we can fix it.

MR. CHAIRMAN: Say, within six months or so, or some such time like that.

SHRI A. K. ROY: What my suggestion would be, you ask the CAG to report the cases in which he feels that there has been undue delay. Let PAC see to it and Government should fix it then.

MR. CHAIRMAN: He should be asked to report it.

SHRI A. K. ROY: Wherever he feels it unreasonable.

MR. CHAIRMAN: Thank you, Mr. Roy.

(The witness then withdrew.)

**MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969**

Tuesday, the 20th January, 1970 at 11.10 hours and again at 15.30 hours

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Nageshwar Dwivedi
5. Shri J. M. Imam
6. Shri S. Kandappan
7. Shri S. S. Kothari
8. Shrimati Sangam Laxmi Bai
9. Shri P. K. Vasudevan Nair
10. Shri D. N. Patodia
11. Chaudhuri Randhir Singh
12. Shri S. M. Siddayya
13. Shri R. Umanath
14. Shri Nagendra Prasad Yadav

Rajya Sabha

15. Shri M. Anandam
16. Shri Gurumukh Singh Musafir
17. Pandit Bhawaniprasad Tiwary
18. Shri C. D. Pande
19. Shri Sundar Mani Patel
20. Shrimati Sarla Bhadauria
21. Shri Kalyan Roy
22. Shri Thilai Villalan

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. Shri A. P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS).

1. Dr. I. G. Patel, *Special Secretary*.
2. Shri A. R. Shirali, *Joint Secretary (Budget)*.
3. Shri K. N. Singh, *Director*.
4. Shri A. G. Krishnan, *Deputy Secretary (Budget)*.

SECRETARIAT

1. Shri D. C. Pandey, *Under Secretary*.
2. Shri S. P. Gupta, *Section Officer*.

WITNESS EXAMINED

1. Shri A. K. Chanda *former Comptroller and Auditor General of India*.
2. Shri P. C. Padhi, *former Deputy Comptroller and Auditor General of India*.

1. Shri A. K. Chanda.

(The witness was called in and he took his seat).

MR. CHAIRMAN: We are glad that you are here and that you will be able to guide us in our deliberations. As it is, you have given your views in brief. I would like you to elaborate what you have stated in a very concise form in your memorandum.

SHRI A. K. CHANDA: I think these are three major points which, though not really appertaining to the contents of the Bill, require consideration by Parliament. The convention has grown in all democratic constitutions that the effectiveness of Parliament depends on the efficiency with which the Auditor-General functions and, on the other hand, the support that Parliament gives to the Auditor-General. These are two very important factors. So, I thought it would be best for me to confine myself to these three aspects—the status given to the Auditor-General, the independence given to him and, thirdly, the terms and conditions of his service particularly his pensionary benefits. These are three major issues on which I thought it would be best to focus the attention of the Committee.

Coming to the first point, though we are supposed to be a Gandhian society, protocol plays a very important part in our lives and where you sit in an official function or how you are treated in an official gathering determines the esteem of the public also. So, it is important to consider

what place should be assigned to the Auditor-General in the Warrant of Precedence. That is why I raised it as the first point in my short memorandum.

It is very odd that in India the Auditor-General should be ranked below a Secretary, even if he be the Cabinet Secretary, a very unusual phenomenon, if I may say so. I thought it would be best to draw the attention of the Committee to the statements which were made in the Constituent Assembly by no less a person than Dr. Ambedkar who piloted the Bill. He made the point, and in my view rightly, that the responsibilities of the Auditor-General are no less than those of the judiciary. Judiciary gives decisions which affect the clients to litigation. The views expressed by the Auditor-General are of vital importance to the functioning of the parliamentary system, particularly the financial control that Parliament exercises. Therefore, he should be given proper status and proper independence. These are two essential attributes of the office. Though it is not part of the Bill I thought I should draw the attention of Parliament to the off-hand manner in which this high office is treated.

MR. CHAIRMAN: You have mentioned something about the officers at the lower level as well.

SHRI A. K. CHANDA: The Deputy Comptroller and Auditor-General is paid the salary of an Additional Secretary but he is not given that rank.

Similarly, Additional Deputies are paid the salaries of Joint Secretaries but they are not given that rank. As you know, the number of Joint Secretaries today is in hundreds, which was not the position in the old days.

The is the manner in which the Government looks upon the office of the Auditor-General and his functions. In all other democracies, particularly in England, the Treasury looks upon the Auditor-General as a friend and guide. As a matter of fact, the entire administration—I am talking of the ministerial level—should look up to the Auditor-General as a guide for the fulfilment of their responsibilities. Because, no Minister, however experienced he may be, can look into matters of detail, or know every-thing about the lapses of his officers or the manner in which they have exercised their discretionary powers. It is only the Auditor-General who brings them to their notice in the first instance and, when no remedial measures are taken, bring them to the notice of Parliament. In all other democracies the Auditor-General is considered an aid to the administration in the higher echelons, but in India a peculiar situation has developed in which he is looked upon as an enemy of the government, and every one tries to denigrate him as far as possible; here I am talking of the official level. This is a very unfortunate and I do not think it is conducive to the evolution of a healthy parliamentary system or of financial control.

SHRI D. N. PATODIA: Sir, why is the Minister not present here?

MR. CHAIRMAN: He has excused himself.

SHRI D. N. PATODIA: But there are three Ministers in that Ministry. If one cannot come, others could come.

MR. CHAIRMAN: He is the Minister in charge. If others come, they will only be ornaments. Yesterday Shri Sethi said that he has some other

important engagements with some delegations. Now, we are not discussing the Bill amongst ourselves; we are examining a witness. The Minister has lost the opportunity of asking questions. That is all. We will examine the witness and get clarifications.

SHRI A. K. CHANDA: If I may respectfully submit, it is not a question of losing an opportunity. Rather of avoiding his opportunity.

SHRI D. N. PATODIA: My point is that the Finance Minister does not attach enough importance to this meeting.

SHRI S. S. KOTHARI: Even if any decisions are taken by this Committee, the Minister will ultimately have to implement them by making the necessary changes in the Bill. How can he do that without being present here?

MR. CHAIRMAN: We will get his advice, weigh it and make our own recommendations.

SHRI A. K. CHANDA: It is not only a question of his being aid to Parliament. He should be looked upon as an aid by the Administration also. It is not so in India.

The second point is this. The CAG has to reply on the Finance Ministry for sanctioning staff of various categories and various other facilities needed by him. I can give you my personal experience. I had asked for some posts of selection grade clerks. The Finance Ministry made heavy weather about it. I had my answer also to that. The CAG has the authority to create, posts in subordinate accounts service, which is much higher than the selection grade. The Finance Secretary came to see me and I told him: you take your own view and I will take my own. I should create so many posts in the subordinate accounts service. That clinched the issue. Certain powers have been given to the CAG to create certain temporary posts and certain permanent posts; but all that depends upon the budget allotment that is made.

MR. CHAIRMAN: You are given freedom within the budget allotment—is that true?

SHRI A. K. CHANDA: Not quite. If he wants to increase the permanent staff he has to go to the Finance Ministry.

MR. CHAIRMAN: What are the rules that bind you?

SHRI A. K. CHANDA: There are certain standing orders on the subject. Here the Finance Ministry has tended to consider the CAG'S office as what is known as attached or subordinate office in the matter of establishments and various other things. I think that reflects the Government's attitude towards the Auditor-General's outfit. The CAG should make his budget estimates and decide on the requirements of his staff and various other facilities, offices and so on. Once they are presented to Finance they should not be cut down by the Ministry at will. They should be placed before Parliament as coming from the Auditor-General. Parliament is certainly free to make such adjustments as it considers appropriate preferably consulting the Auditor-General.

I can also give you some personal episodes. There was some disharmony between the Finance Minister and the CAG during my turn of office, sometime in 1954 or 1955. What happened was that Dr. Appleby who came to India made certain remarks about the Indian administration and he made certain remarks about audit functions also. This matter was coming up before Parliament. I thought that I should at least make my views known to the members of the PAC with whom I was closely associated. Mr. Deshmukh made some derogatory statements about this in Parliament and I wrote to the Prime Minister who said that it was not within his competence. So I wrote to the Speaker who ultimately expunged the remarks.

These are symbolic of the attitude of the Finance Ministry and the Finance Minister towards the office of the Auditor General.

MR. CHAIRMAN: The first point you mentioned was about the independence of the CAG; the second one was about protocol. The third point is about the pension of the CAG.

SHRI A. K. CHANDA: There has been criticism of the CAG taking up any office, not under the Government but in commercial firms. There were certain questions in Parliament, these days it is difficult for anyone to live on the pension that is granted and auditor-generals have been compelled to accept directorships, not paid employment in the commercial world. It is being frowned upon, perhaps rightly. I do not question the attitude of most people to it. But you must give CAG a proper pension. The Home Ministry has progressively increased the status of the judiciary their age of retirement and their pensions. On the other hand the Government seeks to bring down the perquisites, salaries and other matters relating to the Auditor-General. In theory there is a pension of thousand rupees but the auditor-General with this additional pension never reaches that thousand.

I pointed out in my note that there was nothing in the Constitution to prevent a Judge being re-employed after his retirement though the considerations which induced the Constituent Assembly to make the auditor-general ineligible for office apply with equal force in the case of the Judges. The whole problem arose because the Constituent Assembly adopted the framework of the 1935 Act; the 1935 Act did not contain anything about the Judges but only about the Auditor-General. But there was the convention of not employing any Judge after his retirement. Today because of various reasons, I do not think that any Judge is out of employment after his retirement. In the United States the CAG holds office for 11 years and he retires on the same pension as his pay; in the old days in the UK the CAG never retired. I think now he retires at 75

Previously in the United Kingdom like the Judges he never retired.

MR. CHAIRMAN: During good behaviour?

SHRI A. K. CHANDA: There is provision in our Constitution for removing him. It is important that the pensionary terms must be suitably improved so that the auditor-general can live in dignity after his retirement.

Again, there is the point—it is not a very important one, of course—that the Auditor-General holds office for six years. There is no age of retirement for him as such. The Auditor-General, who is appointed when he is young, fades out before the age at which the civil servants retire today.

SHRI C. D. PANDE: At what age did you retire?

SHRI A. K. CHANDA: I was not 58 when I retired.

MR. CHAIRMAN: Would you like to make any definite proposal on the question of retirement?

SHRI A. K. CHANDA: Either you make it a tenure post or fix the age of retirement. If you introduce the element of age of retirement then I think it should be what has been prescribed for the Judges of the Supreme Court.

These are aspects which I should like to respectfully bring before the Committee, because the only support the Auditor-General receives from anybody in this country is from Parliament.

SHRI S. S. KOTHARI: You have said that with regard to the staff of the Auditor-General, the Finance Ministry generally is averse to give him the proper facilities to the extent the Auditor-General may desire. Would you suggest that a Parliamentary Committee may be there to sanction the staff and the budget estimates so that these are not—left to the tender mercies of the Finance Ministry?

SHRI A. K. CHANDA: After all, the budget has to be presented by the Finance Minister. Even the charged expenditure has got to be included in the budget estimates to be presented to the House. That has always been the responsibility of the Government. Except in the case of the judiciary, where the Supreme Court has been given powers, corresponding powers have not been given to the Auditor-General.

MR. CHAIRMAN: In regard to the legislatures?

SHRI A. K. CHANDA: There is no question of that. He has to present the estimates; he cannot chisel the estimates to suit his moods. If a convention is established that the Auditor-General should be empowered to draw up his own estimates which would be included in toto in the estimates presented to the House, that would meet the point. If Parliament wants to look into it, the Public Accounts Committee may do so. As a matter of fact, when all this trouble took place, Mr. Ananthasayanam Ayyangar said that it is most unfortunate that while our Constitution made provision for the Attorney-General to attend the House and also speak in the House when required, there was no such provision for the Auditor-General. He is an orphan.

SHRI S. S. KOTHARI: The point involved is that there may be objection at the other end, that the Auditor-General would become all-powerful and that there would be nobody to check him in regard to matters like his staff, etc. There, we have tried to think of a via media of a Parliamentary Committee which would scrutinise the proposals of the Auditor-General.

SHRI A. K. CHANDA: As regards pay, that question does not arise, because it is a graded structure, and therefore, the Auditor-General cannot create new grades. That is never done, and that of course may create

complications. I myself would be most averse to make any such suggestion, because the whole service structure in India has been designed in a particular way, and if a new category is introduced, it would create complications and heartburnings and so on.

SHRI S. S. KOTHARI: What concrete proposals would you make?

SHRI A. K. CHANDA: There is no question of changing grades like that.

MR. CHAIRMAN: One might think of the proportion between the LDCs and the UDCs and so on.

SHRI A. K. CHANDA: You are referring to the lower echelons. At one time, the Additional Deputy Auditors-General used to get the same salary as the Joint Secretaries. Now, I believe—I have learnt from the newspapers—that the pay of Joint Secretaries has been increased, but a corresponding increase has not been made in the case of the Additional Deputy-Auditors-General. That is a case where it is the Finance Ministry which decides. The equation was there before, but the equation has disappeared today.

SHRI S. S. KOTHARI: There should be a change of heart in the Finance Ministry itself

SHRI A. K. CHANDA: I do not know how to bring about change of heart

SHRI S. S. KOTHARI: My next question is this. What about the audit of the LIC, Food Corporation and companies like Jessop which are beyond the purview of the Auditor-General's scrutiny? What is your opinion about this?

SHRI A. K. CHANDA: So far as the LIC was concerned, there was a big row with the Finance Ministry, I relied on what was said in America that you can create a situation in which you run the Government by autonomous corporations. You allow

the Government to divest itself of its functions by creating autonomous corporations. Though the Minister is not accountable, he is really more powerful than he is in regard to departmental expenditure. This is one of the points which was developed in the U.S.A., where they said that by this device, you are really taking activities out of the purview of Parliament. This was the root cause of the LIC.

You were really taking up points which I said I would raise here. I do not know, but I read in the newspapers that Mr. Khadilkar has not accepted the Auditor-General's suggestion that there should be audit by him of companies where the investment of Government is substantial. To give an example, if the capital of a company is Rs. 1 crore, and the Government holding in it is Rs. 50½ lakhs, then, it does not attract the audit of the Auditor-General.

SHRI S. S. KOTHARI: It is 50.13 per cent in Jessop.

SHRI A. K. CHANDA: I do not know the exact percentage though I am the Chairman of Jessop. It is something of that order. Whether it should be on a percentage basis or is the quantum of Government participation? The point is this, if in a big company with an investment of Rs. 5 crores, Rs. 2.25 crores are held by Government, that company escapes the audit of the Auditor-General. In the United Kingdom, the Auditor General does not audit the nationalised enterprises. He was asked at one time and he signified his inability to do so. Here also, the audit by the Auditor-General is a second audit; really it is a test audit. I think there should be some provisions which enable the Auditor-General to give instructions to the commercial auditors how they should conduct their audit. At the present moment, a company auditor does not question the exercise of discretion by the managing directors or the Board. That is the

position. The Auditor-General's main function is to bring to notice where a discretion has been exercised improperly. Also in cases where the Government investments are substantial, there should be provision for a second audit by the Auditor-General directed towards reviewing of the interests of the shareholders, how far their interests have been safeguarded by the Board of Directors in the exercise of powers which they undoubtedly possess.

SHRI S. S. KOTHARI: The proprietary part of it.

SHRI A. K. CHANDA: Yes; therefore, I would support the Auditor-General that he should be empowered to audit companies in which Government investment is substantial. The quantum is a matter which I should leave to the Committee. Money has lost all value today. I remember when I joined service, we used to think in terms of Rs. 100 or Rs. 200 and that used to be a matter of great debate. During the war years it came to lakhs; now, even if it is a crores here or there it does not really matter. That is the sort of attitude which we have developed today. It is a matter for the committee to decide. I think an investment of the order of Rs. 50 lakhs or 1 crores should attract the right of audit by the Auditor General.

SHRI S. S. KOTHARI: Are you in favour of a residuary clause that it should be in the discretion of the Auditor General to look into the accounts of a firm where Government's involvement is beyond a certain quantum?

SHRI A. K. CHANDA: Under the Companies Act, he has the authority to give directions to commercial auditors. If he gives such directions, he may decide after the audit is over whether it is or it is not necessary for him to examine the accounts again. He should have that option.

SHRI S. S. KOTHARI: Companies Act gives him jurisdiction only in cases where Government's involve-

ment is 51 per cent or more. What about other cases?

SHRI A. K. CHANDA: In the case of other companies, there should be a permissive clause allowing discretion to the Auditor-General to have a second audit if he considers it necessary.

SHRI S. S. KOTHARI: Have you experienced any delay in receiving replies to your queries from the Finance Ministry of the Government?

SHRI A. K. CHANDA: I think the PAC and Parliament are fully aware of the massive documents which were produced, of which no notice was taken. You have a committee to examine to what extent the recommendations made and the assurances given are being implemented by Government. In the old days, even the PAC's recommendations collected dust in the archives of the Secretariat.

SHRI D. N. PATODIA: With regard to companies like the Jessops, Government think in terms of having some interest either in the form of shareholding or loan only to help a particular company out of difficulties and there is no intention on the part of Government to nationalise that company ultimately. There are certain Government nominees on the Board of Directors. Beyond that, Government have ample power through various legislations to make enquiries about the functioning of the company, ask for evidence, details, information, etc. In addition to this, do you feel that there is any necessity for giving power to the Auditor General to probe into the internal affairs of the company?

SHRI A. K. CHANDA: Your question implies a distrust that the audit review by the Auditor General might impinge on the efficiency of the working of the company. If you accept that, of course, Auditor General's audit should not be there. If I may say something in the light of my personal experience, I was the Chairman of Bolani Ores, in which Government had

50.5 per cent of the shares and a private company, Orissa Minerals, had 49.5 per cent of shares. When I was Auditor General, I told the Secretary, "This is a subterfuge on your part: You have left out Rs. 50,000, so that it does not become a Government company." I became the Chairman of the company later, because I was acceptable to both the sides. By mutual consent, audit by the Auditor General was accepted by this company. But the Auditor General has never found it necessary to make any observations regarding its functioning. That is why I said, if the Auditor General is allowed to give directions to the commercial auditors, let him be the judge whether he should go into the accounts of the company again or not. He should have the right of having a supplementary audit where he considers it necessary.

SHRI D. N. PATODIA: My question was, in view of Government's representatives being on the Board and the various legislations under which all sorts of evidences and information can be called for by the Government, where is the justification or necessity of giving this additional power to the Auditor General? It will only create additional burden for him.

SHRI A. K. CHANDA: The justification is to safeguard the interest of the majority shareholders.

SHRI D. N. PATODIA: For that purpose, Government holds sufficient powers.

SHRI A. K. CHANDA: I would not like the flexibility of private management to be impaired. As a matter of fact, in the case of Jessop and Company, Government itself came to the conclusion that it would be unwise to change the pattern of management there, and destroy flexibility. But I do not think the supplementary audit

by the Auditor General would really interfere with the working of the company, particularly when you give discretion to the Auditor General. It is not automatic.

SHRI D. N. PATODIA: There are many forms of Government's involvement in companies. One is direct participation in the form of direct contribution to shares. The other is participation through the various financial institutions. When you say Government having substantial interest in a company, you mean such cases where Government have direct participation in the form of shares?

SHRI A. K. CHANDA: Yes. So far as financing houses are concerned, Government may have contributed to the shares of the financing houses, but they have a corporate entity. They are not really departments of Government. I think it would be wrong to bring within the purview of our discussions any contribution made by the financing houses to any company. If you apply it today, with all the major banks nationalised, there would not be a single company in the country which will not come under the dispensation which the Auditor General claims.

SHRI D. N. PATODIA: Certain suggestions have been made that whenever Government enters into certain contracts beyond a certain figure with certain parties through negotiations, the Auditor-General should have the power to audit the books of those contractors. I hope, you are aware that before any contract is entered into the pros and cons of the deal are properly looked into and every possible care is taken by Government to see that the best possible quotations are accepted according to their judgement.

SHRI A. K. CHANDA: Not necessarily the best.

SHRI D. N. PATODIA: It need not be the lowest but in their judgement it is the best; they may be wrong. In spite of that decision by the Govern-

ment organisation to award a contract to a particular firm, the internal working of that contractor could be probed into by the Auditor-General simply because the contract happens to be a negotiated contract.

SHRI A. K. CHANDA: A negotiated contract is on a different footing from a contract entered into as a result of open tendering. Negotiation means exercise of discretion by the authorities who accept that contract or who settle the terms of the contract. This is precisely the field in which you expect the Auditor-General, in regard to departmental expenditure, to report to you. So, the question arises whether in the case of negotiated contracts as distinct from other types of contracts the Auditor-General should not have the right of audit.

In the USA this provision is there. As a matter of fact, I vaguely remember to have seen a report that several billion dollars were recovered which Government paid to contractors as a result of injudicious terms or high prices. In the UK also there was a big controversy relating I think, to aircraft parts—with Marconi and some other companies—and a great deal of money was refunded to Government as a result of a review by the Auditor-General.

I fully appreciate the point that you should not focus limelight on the activities of the contractor but nonetheless when it is a negotiated contract as distinct from other types of contracts, surely somebody should have a look at it. If you have such faith in the wisdom of the Government officers, departmental audit should likewise be excluded from the scope of the Auditor General. Undoubtedly the Government officers

are expected to have applied their minds and negotiated the best terms but whether that discretion has been properly exercised is a different matter.

SHRI D. N. PATODIA: It appears that sometimes we draw conclusions by quoting other countries' practices meaning thereby that whatever is done elsewhere is the best thing. But that may not be the case. If any mistake or wrong is committed knowingly by the officers concerned, it can also be detected by auditing the books of the respective Government departments. However, if we are so averse to the idea of negotiated contracts, will it be better to give this power to the Auditor-General or will it be better to ban contracts on a negotiated basis?

SHRI A. K. CHANDA: If you rule, that out, I think you will rule out foreign collaboration also because in the case of most foreign collaborations you have to negotiate and settle the terms. I would not like to bring the collaboration terms of an agreement under the purview of the Auditor-General.

SHRI D. N. PATODIA: You are not bringing them in; therefore, that question goes out.

SHRI A. K. CHANDA: There will be difficulties.

SHRI D. N. PATODIA: I know. But you are trying to bring in Indian collaborators while you are not bringing in foreign collaborators.

SHRI A. K. CHANDA: Not Indian collaborators but negotiated contracts. I must bring to the notice of the Committee that there is a growing tendency in the country for the departments to indulge in the practice of sending for all the tenderers, after the tenders have been submitted, instead of accepting the best tender not necessarily the lowest, entering

into discussions with them and a competitive beating down of prices. That is very unfortunate. Either you go in for a negotiated contract or invite open tenders. I do know that the Railway Board, for example, invite tenders from all the wagon builders in the country but do not accept any particular tender on the basis of prices quoted and other relevant factors; they send for each and every one of the tenderers and negotiate with them. Then they get a price from some contractor who might not be very efficient or who would not perform and that uneconomic price is forced down on the other tenderers. This is another aspect which was not covered by the discussion earlier but this is a matter to which also I must draw the attention of the Committee. Either you go in for negotiated contracts or you invite open tenders; if you invite open tenders, you must go by principles which regulate the acceptance of open tenders.

SHRI D. N. PATODIA: To avoid such difficulties would you suggest certain powers being given to the Auditor-General so that whenever he wants he can ask for information from the contractor in respect of that particular job that was done by negotiated contract and nothing beyond that?

SHRI A. K. CHANDA: I do not think it is ever intended that the Auditor-General should roam over the whole field of the contractor's activities. It is merely a question of examining and reviewing the items relating to the execution of that particular contract. I would not say that the Auditor-General should go and review the whole gamut of the contractors' activities.

SHRI D. N. PATODIA: Why should anything which is not intended be given? You have to give only such powers which are the absolute minimum needed. Would you, therefore, suggest that only such powers should be given as would restrict the

activities of the Auditor-General to inviting information only in relation to the contract?

SHRI A. K. CHANDA: I do not know what the Auditor-General had in mind but my understanding was that he wanted the authority to audit only that part of the contractor's activities which relate to the particular negotiated contract.

SHRI D. N. PATODIA: I do not say 'audit'; I say, "inviting information". You cannot go and search their books; you can invite information and let them certify that the information they are giving is true information.

SHRI A. K. CHANDA: Information and audit are two different things. As you know, how you ask for information is also very material. You are all experienced Members of Parliament and it is impertinent on my part to say so but the way you frame a question enables Government sometimes to give evasive answers. Information is quite distinct and separate from audit and the account books they keep.

SHRI C. D. PANDE: I am rather distressed to see that you and other ex-Auditor-Generals have a feeling of frustration and helplessness. Everybody knows that the Auditor-General's position is a very unique and important one in the parliamentary and financial life of the country. As far as I remember, the Auditor-General used to get the highest salary, higher than the Secretaries and even the Cabinet Secretary. He was at par with the Governor of the Reserve Bank in the matter of salary. Shri Narahari Rao was getting Rs. 5,000, I do not know whether you got Rs. 5,000 or what.

SHRI A. K. CHANDA: No. The Constitution has laid down the salary at Rs. 4,000.

SHRI C. D. PANDE: But the salary is immaterial.

SHRI A. K. CHANDA: When the Constitution was made the Auditor-General's salary was reduced from Rs. 5,000 to Rs. 4,000 and it was the intention to reduce the salary of the Secretaries also to Rs. 3,000. Actually, for a time, the Secretaries appointed after a particular date except the ICS and the protected officers used to get Rs. 3000. I think when Prof. Humayun Kabir was appointed Secretary from outside he was given a salary of Rs. 3000. So, the gap of Rs. 1,000 was maintained.

SHRI C. D. PANDE: It is well known that the ablest Secretaries have been promoted to this rank. The salary is immaterial. What is more important is the prestige and the status of the post. The Government must also accept the prestige and the status of the Auditor-General. Whether he gets Rs. 4000 or Rs. 5000 is immaterial. We have been hearing from you and from Mr. A. K. Roy that this is so. We also realise that it is really unfortunate. Can you suggest any way by which the prestige and the status of the Auditor General may be maintained. The Auditor-General should be at par with the rank of the Supreme Court Judges or whatever you suggest. There may be certain occasions when the Auditor General has to oppose the Government. Take, for instance, the Chief Justice of the Supreme Court or even the Chief Election Commissioner. If the Chief Election Commissioner subordinates his position to the Government, that will be really unfortunate. The Auditor General has to discharge his duties impartially and he is to have an independent mind. What is your suggestion so that the Committee may benefit by it?

SHRI A. K. CHANDA: The Committee can say that the Auditor General should be equated in rank to whomsoever you consider proper.

SHRI C. D. PANDE: At the same time the Auditor General has to exercise and assert his independence. You take the example of the Members of Parliament. Our salary is nothing. But there are persons like

the Chairman, Mr. S.M. Joshi, who can assert. He does not get Rs. 4000 or Rs. 5000. But he can assert himself.

SHRI A. K. CHANDA: I will tell you that when the protocol question came up, I wrote a letter to Pantji the then Home Minister saying that he was treating the Auditor General in difficulty and that the Auditor General will not attend any official function. That is all he can do. What else can he do? The only way in which he can assert his position or show his dissatisfaction is to refuse to attend any official function where he is seated lower than the Cabinet Secretary to the Government. What else can he do?

SHRI C. D. PANDE: That is really unfortunate.

The second thing that I would like to know is this. You were also the main actor in the Defence affair brought out by the P.A.C. I was a Member of the P.A.C. some 12 years ago. I remember, the P.A.C. will not do even this much work if the monitorship of the Auditor General was not there. Now, whatever we are hearing, scandals and inquiries and other things, is all due to the efforts of the Auditor General and their independence that things come to light. But then there is the delay in bringing up the cases. I was a Member of the P.A.C. in 1956-56. There was the case of Mr. Krishna Menon. It came to light after 8 years; it was discussed and discussed for another 8 years but nothing came out. Can you suggest a way out to bring freshness to the cases that are brought out before the P.A.C. and that they should see the light of the press and the public come to know about them?

SHRI A. K. CHANDA: Before I relinquished the office, I had made the audit up-to-date. You might even recollect that in one case there was a debate in the House in regard to something I said about Defence.

SHRI C. D. PANDE: I remember that.

SHRI A. K. CHANDA: Once the audit is made concurrent and up-to-date, the difficulties that you are mentioning will, largely, disappear. They were made so and, I am sure, they are even so today. In the olden days, it is quite correct that we use to take up matters after 4 or 5 or 6 years. But before I relinquished the office, I had made all the audit concurrent and up-to-date. There was the Defence case. The Audit Report was published before the Appropriation Accounts—and the Government made a heavy weather on the floor of the House. When he is up-to-date, he is slated in Parliament and, when he is not up-to-date, then also he is criticised.

SHRI C. D. PANDE: Have you felt any difficulty in working with the Public Accounts Committee Members who, in fact, should be your defenders and to whom you should look upto if there is any grievance?

SHRI A. K. CHANDA: No. My own personal experience has been very happy. Our relations were most cordial and we have always had harmony in our approach to problems. I do not think there has been any discord or disharmony between any of the P.A.C. Members, let alone the Chairman, and the Auditor General.

SHRI C. D. PANDE: Is it not more than Finance Secretary's pleasure?

SHRI UMANATH: Mr. Chanda made suggestions and has given his views about the status of the persons in the higher echelons in his ex-Department. I came to understand that Mr. Narhari Rao who was

also a CAG made a statement before the Economic Committee of the Government of India—I think in 1949 where he proposed that the UDC in the Audit Department must be treated on par with the Assistant in the Government Secretariat and the SAS Accountant must be treated on par with the Section Officer in the Secretariat. Are you in agreement with that?

SHRI A. K. CHANDA: That is where the rub comes in. As I pointed out, the Auditor-General has to go to the Government of India.

SHRI UMANATH: Are you in agreement with such proposals? It is not vis-a-vis the Finance Ministry.

SHRI A. K. CHANDA: The question is: the SAS man in the Auditor-General's office is called Superintendent. As I said earlier, the Auditor-General's office is treated more or less as an Attached Office. He does not get the same pay as the Section Officer in the Secretariat. Similarly, an Upper Division Clerk in the Auditor-General's office who does in a sense comparable work done by the Assistant in the Secretariat does not get the same scale of pay. So I would not only support the views expressed by Mr. Narhari Rao that there should be equation just as there is equation between the Parliamentary Secretariat and the Secretariat proper there should be similar equation between the structure of the Auditor-General's office and the Secretariat.

MR. CHAIRMAN: There are different classifications. They need not be called UDCs.

SHRI A. K. CHANDA: Whether he is called Assistant or not is not so vital to him. What is vital to him is the scale of salary and the quantum of increments.

SHRI UMANATH: Question of status is also there.

SHRI A. K. CHANDA: I don't think. We, of course, in this country

look down upon the designation of 'Clerk'. But in UK the Clerk of the House of Commons is a very important person.

SHRI UMANATH: You had mentioned about your dependence upon the Finance Ministry for your staff requirements and other things. Here, I would like to draw your attention to what Mr. Ramayyar, an Addl. C & A G has written:

"In fact conventions have been developed with the Ministry of Finance to ensure a proper appreciation of the Auditor-General's requirements for the efficient running of his Department. A Committee consisting of the Deputy Comptroller and Auditor-General and senior officers of the Ministry of Finance considers the requirements of the Indian Audit and Accounts Department when the Budget proposals are ready. In case of disagreement which has not happened so far, the Minister of Finance and the C. & A.G. are expected to discuss and come to a settlement."

Here he makes a positive suggestion that 'in case of disagreement which has not happened so far'. During your regime, did you have any such occasion for such disagreement?

SHRI A. K. CHANDA: I gave you an example. I do not think I am bound by what Mr. Ramayyar has said in his learned book. After all I was the person concerned. He did not perhaps know what was happening outside his limited jurisdiction. But I myself mentioned to you earlier the case of increasing the number of Selection Grade clerks.

SHRI UMANATH: The second step suggested is that where differences arise in the Committee, then the C & A G and the Finance Minister have got to discuss between them-

selves. There is a way out and they have to reach a settlement. Was the case you have suggested taken up in that manner between the C & A G and the Finance Minister?

SHRI A. K. CHANDA: These are administrative details. But I had an occasion to write to the Finance Minister once that his Ministry was withholding or rather cutting down various proposals made by me; I do not know whether with his concurrence or not. During Mr. Narhari Rao's time a convention was developed that any request emanating from the Auditor General cannot be turned down except by the Finance Minister himself. But the Finance Minister has the right to turn it down. That position was accepted. I believe even recently when there was a problem of equation between the Audit Officers and other officers in the Secretariat, the Government did something adverse. The Auditor-General had a talk with the Finance Minister but no remedy was available.

SHRI UMANATH: In your written note you have quoted the portion in the speech of the late Dr. Ambedkar where he has forcibly argued for placing the Auditor-General on par with the Judiciary. After quoting that you have made these observations:

"These observations of Dr. Ambedkar in piloting the draft Constitution Bill, which reflected the mood of the Assembly, have assumed greater significance to-day than when they were made."

From this I understand that the mood of the Constituent Assembly at that time was that the Auditor-General must be on par with Judges and all that. I was surprised after reading this as to how despite the mood of the Constituent Assembly and despite the assertion of the Minister in charge how the Constituent Assembly could not give that power. But then

when I read the speech of Dr. Ambedkar from the proceedings in full, I found that in the relevant portion which you have quoted you have quoted only a part only. If read in full, it is as follows:

"I should have thought that it would have been appropriate in the interests of the people that such a power should have been given to the Auditor General. But sentiment seems to be opposed to investing the Auditor-General with such a power. For the moment, I feel that nothing more can be done than to remain content with the sentiment such as it is to-day."

It is clearly stated by the Minister that he was in favour but so far as sentiment of the House was concerned, it was against that, but in your quotation after quoting that you dropped that portion and you have given a concrete view of Dr. Ambedkar that the Constituent Assembly was in a mood. So I take it that you had dropped the later portion of Dr. Ambedkar's speech in your note just with a view to mislead this Committee which is not permissible.

SHRI A. K. CHANDA: Sir, I seek your protection.

SHRI UMANATH: I also seek protection from the Chairman.

MR. CHAIRMAN: You asked him a question that he has done it deliberately to mislead the Committee.

SHRI A. K. CHANDA: What he has read also supports my view.

MR. CHAIRMAN: I have followed. He has said that the mood of the Assembly was in favour of what Dr. Ambedkar wanted but only Dr. Ambedkar said that the sentiment of the Assembly was not that. So this contradiction.

SHRI A. K. CHANDA: This is only the power part.

SHRI C. D. PANDE: Why should you raise this question?

SHRI UMANATH: Suppose I had not brought this to you, normally we would have gone by the impression that the Constituent Assembly also was in favour.

SHRI A. K. CHANDA: The House was certainly in favour of giving the Auditor-General the same position as the Judiciary. If you so wanted I would have written a Mahabharata quoting from the Constituent Assembly. That was the mood as reflected in the speeches of various Members in the House.

MR. CHAIRMAN: His explanation is that there are two issues. One was about status and the other was about the powers. As far as the powers are concerned, Dr. Ambedkar is referring to those powers, but as far as the status is concerned, he thinks that the mood of the Assembly was in his favour.

SHRI UMANATH: No, Sir. It is not the question of status of the Supreme Court. I do not want to take the time of the Committee, otherwise I would have quoted in detail. In that ultimately it comes 'Only we accepted an amendment where the Supreme Court Judges must have the power to appoint their own staff' and all that. In the context of this sentence, it immediately follows that 'I wanted that it should have been given to them also. But this power we cannot give because the sentiment of the House is different.' My point is; the witness may have his own views and we may differ. But with all respect, the point is that it is a matter of record of Parliament. When he quotes it, I have no objection to his quoting it in part but to say that that was the mood of the Assembly was wrong.

SHRI A. K. CHANDA: I have also said again that Dr. Ambedkar argued:

"I should have thought that it would have been appropriate in the interests of the people that such a

power should have been given to the Auditor General."

SHRI UMANATH: That is so far as Dr. Ambedkar's view is concerned. My objection is not to that. From that quotation for Mr. Chanda to say that that was the view of the House is not correct.

MR. CHAIRMAN: Let us be fair to him. Since the powers are important, he has quoted the last paragraph where he has definitely said:

"I moved an amendment to the original..." etc. But this was not so. There he has agreed.

SHRI UMANATH: I see both from the original draft as well as from the amendments that were moved that the Auditor-General is not to have any such powers. That means that in that regard the Constituent Assembly was against him.

SHRI C. D. PANDE: Besides that when we are in Parliament, we quote things to substantiate our point of view. Even if Mr. Chanda has not given the proper quotation, I feel his point was to maintain that the idea of the Constitution-framers was that he should be given that position. Perhaps the House did not approve that.

SHRI A. K. CHANDA: I think the hon. Member is taking exception to the term 'mood of the House'. If he had cared—to read the proceedings of the Constituent Assembly—if he had read the speeches made by other members, he would have come to the same conclusion as I have. That reflected the mood of the Constituent Assembly. As you know, when the Constitution was being framed, there were several drafting committees where all kinds of compromises were made and put before the House and carried. I have read the speeches made by other members like Mr. Krisnamachari on this very clause and the general impression to anybody who reads the proceedings will be that the House itself was of that mind.

MR. CHAIRMAN: It happens for all political parties. Some draft is prepared and hammered out in the Working Committee and is placed before the Party. He has not in any way tried to misrepresent because he has himself said in the last paragraph:

"I should have thought that it would have been appropriate in the interests of the people that such a power should have been given to the Auditor-General."

Let us not say that he tried to mislead the Committee.

SHRI C. D. PANDE: And the mood to-day is to support that.

SHRI UMANATH: I agree that your mood is to support him. Next comes the question of disability that after retirement he is disabled because he is not being allowed to be recruited for Government service.

SHRI J. M. IMAM: They can become Members of Parliament.

SHRI UMANATH: Now they have got the right to be employed in the private sector in lucrative jobs. I do not see how this disability that they could not be employed in Government service comes because they cannot have both the appointments at the same time. That is that a retired C & A G cannot be employed in the private sector as well as in Government service. They can have only one job but they cannot have both at the same time. You are permitted to enter into services of the private sector companies and accept lucrative jobs. Yesterday Mr. Roy said that he was a Director of 12 companies.

MR. CHAIRMAN: They cannot go to the public sector companies.

SHRI UMANATH: Of course they cannot be in the public sector employment as well as in the private sector holding directorships at the same time.

SHRI A. K. CHANDA: I must make the point clear here. I do not think Shri A. K. Roy has accepted any salaried appointment. Being a director of a company and getting Rs. 100 or 250 is quite a different thing from seeking employment in the private sector. The Auditor-General could have done so. As a matter of fact, when I retired from service, I was asked by a commercial firm whether I could join them as a Chairman—a salaried executive chairman. You know many other civil servants are holding such appointments to-day. But I thought that it is quite consistent with the dignity of the office that while debarred from accepting any office in government. C.A.G. should work as a salaried employee in a private firm. I do not think that this has happened. He may be a director of a company, attending meetings of the board. That is quite different from employment.

SHRI UMANATH: On this I would like to ask one question. Apart from employment in the private sector you yourself were a Chairman in the Finance Commission. And then you were Chairman of a Committee in the A.I.R. They were all government appointments. These were the things being done. You have also said that a Supreme Court Judge was being appointed after his retirement. For example you said that Shri Gajendra-gadkar was appointed as a Chairman of a Commission under Central Government. These things are being done. So, with regard to you what is the disability that you suffer from?

SHRI A. K. CHANDA: The difference is quite substantial. All the judges who were appointed drew the salaries of their posts. As a matter of fact, when I was appointed Chairman of the Broadcasting Committee, I did not draw any daily allowances even for the day work on this Committee I did not use an official car or obtain any other facility. The only facility that I got was the air-fare whenever I travelled on the Com-

mittee work. That too because it was beyond my capacity to meet the charges.

So far as Finance Commission is concerned, I did not draw any salary from Government at all. It was merely a question of receiving a daily allowance for the days on which I certified that I worked for the Commission. There is a difference between the two things. I only drew the allowance for the days I worked. I have not draw any thing else from Government. And there is no question of my drawing any salary.

SHRI S. KANDAPPAN: Were you debarred from drawing it or did you, on your own volition, not draw it?

SHRI A. K. CHANDA: I have never asked for it nor the government offer it.

SHRI S. KANDAPPAN: My question is whether you were debarred from drawing the salary.

SHRI A. K. CHANDA: These posts did not have salaries attached.

SHRI UMANATH: The money is paid—may be it may be by way of allowances and honoraria.

SHRI A. K. CHANDA: I did not draw any honorarium.

SHRI UMANATH: It is not because you were debarred from receiving any salary.

SHRI A. K. CHANDA: I think there is some slight confusion about it. It is quite different from being chairman or a Member of a Committee. For example, the Members of Parliament are not debarred from being Members of certain Committees so long as they do not draw anything more than what they draw as Members of Parliament. If the Committee feels that the Auditor General should not sit on any Committee and his advice should not be available, to Government that is a different matter, I will have no dispute on that. It is for you to decide

whether an experienced officer who has been a Secretary to the Government & Auditor General—should be called upon to give his assistance or not.

SHRI UMANATH: With regard to Audit Department I find that there is LIAS cadre just like the ICS. I find that a substantial section of the IAS officers are sent on deputation to the various ministries of Government of India with additional allowance and all that. I am told that they are being sent on deputation on rotation. I am also told that the people who go on deputation to other ministries get some more allowances and all that. I would like to know why they are being sent on deputation to Government of India departments. You say that independence of your department should be maintained. But when you send your own officers on deputation to other ministries, does that not affect your independence?

SHRI A. K. CHANDA: The Secretariat has no permanent cadre. They draw officers from the Indian Audit Service or from the I.A.S. or from the Revenue and other Services. This is an odd suggestion to my mind that because some officers go on deputation from audit, Auditor General's independence is impaired. This is beyond my comprehension.

SHRI UMANATH: I am not talking about the Auditor General. I am talking of the office. The individual officer is connected with the entire department. I am talking of one section of officers who go on deputation to other ministries of Government. Suppose an objection is raised while they are in service here and once they go there and they come across such things, they can give explanations by which the whole objection can be covered. That is why I want to know whether it affects your independence if quite a large number of your officers go on deputation to other ministries?

SHRI A. K. CHANDA: I do not accept that suggestion at all. Just because an officer goes on deputation to Secretariat his whole outlook is changed when he returns to the department I would not accept that insinuation.

SHRI UMANATH: The point which the Chairman raised was this. That is about the maximum pension drawn by the ICS Officer. This is in the pension rules framed by the President under Art. 309 of the Constitution to the higher service people. I am subject to correction. If such a provision is made in this Bill for a higher pension, than what is mentioned therein will it not militate against that order of the President? At present pension is governed by that order.

SHRI A. K. CHANDA: Actually the Auditor General's pension is not governed by an order of the President which means an order by the executive government. It is determined by an Act of Parliament.

SHRI UMANATH: But the Auditor General is recruited from the higher service. An ICS Officer may ultimately become a C. & A.G. In that event will not the maximum pension of the incumbent be affected?

SHRI A. K. CHANDA: Auditor General's pension has been determined by Law made by Parliament. It is not by a Presidential Order. It is regulated by an Act of Parliament and not Presidential Order.

SHRI UMANATH: Presidential Order with regard to the Service people.

SHRI A. K. CHANDA: If an ICS officer becomes a judge, then he gets more than 1,000 pounds.

SHRI UMANATH: So, you do not agree with that.

At present Audit Reports come after the Appropriation Accounts are submitted by the Government. If the

audit reports are received by the Parliament simultaneously with the Appropriation Accounts, then this will really be facilitating the job of the House and the Members. They can know at the time of the appropriation of accounts itself. What is the possible method by which it can be done simultaneously?

SHRI A. K. CHANDA: Before I relinquished office, Audit of accounts had been made up-to-date; whether it could harmonise with the Appropriation Account, is another matter.

SHRI UMANATH: I understand when the Audit Department demands certain documents from the Ministries, some times these records are refused by the Ministries. In our Bill also there is a provision saying about the 'relevant records'. I would like to know your view in regard to the question of 'relevant'. Who is to decide in such matters when Audit asks for a record whether the record is relevant or not? Whether it should be decided by the CAG or the Ministry official or the Deptt. concerned?

SHRI A. K. CHANDA: I do not know the present position but in my time I did not encounter any difficulty in having access to any document I wanted. In our Constitution it is stated that the British Parliament procedure should apply. In the U.K. the position is that everything is made available to the Auditor General and it is left to him to decide whether an objection should be raised. Of course, there are confidential matters involving security of the State or the defence of the country which should not be made public. The Auditor General has access to the documents and it is left to him to bring up such matters as he considers would not run counter to the security or the interest of the country.

SHRI UMANATH: My question was, the word 'relevant' is there.

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SHRI A. K. CHANDA: There had been no difficulty. 'Relevant' might give rise to disputes between the Auditor General and the Secretariat. I think the word 'relevant' should be deleted. The Auditor General should have the right to all records that he demands.

SHRI M. ANANDAM: In the note submitted by you, you have quoted Ambedekar. You said CAG should have some independence as the judiciary. I agree with you to a great extent, but the difficulty appears to be that so far as the duties are concerned, the duties have all been as per the Parliament enactment made in this behalf and so far as the appointment of personnel is concerned, the CAG should be independent of having his own staff and just to have a check on him, may I suggest that is it not enough that the Speaker of the Lok Sabha and the Chairman of the Rajya Sabha sitting with the CAG decide the number of staff that the CAG should have and also the administrative powers that he should have under the Constitution? Will it be all right if these three people sit together and decide?

SHRI A. K. CHANDA: I do not know whether it is a practical proposition. If you appoint some one as Auditor General, obviously he enjoys your confidence and you have full faith in his independence. He takes an oath of office in which he says he will uphold the Constitution etc. Whether you are prepared to leave it to his judgement as you do to the Supreme Court Chief Justice or the Speaker or the Chairman of the Rajya Sabha is a matter for your determination. I cannot say anything more. I personally feel that a person who is levitated to this office should be allowed this discretion and you can certainly rely on his to fulfil his responsibilities in the interest of the Organisation and the country.

SHRI M. ANANDAM: May I suggest that so far as the expenditure on

the CAG staff and himself is concerned, it should be Charged item under the Budgetary provisions and not of voted item.

SHRI A. K. CHANDA: I think CAG's Office itself is.

SHRI M. ANANDAM: Should we not make Indian Audit and Accounts Service under 'Charged'?

SHRI A. K. CHANDA: It makes very little difference because the Charged amount is also placed before Parliament.

SHRI M. ANANDAM: Normally, it is not discussed. In view of the higher position that CAG gets, is it necessary that we should prescribe minimum qualification for appointment of CAG. As the Constitution now stands, there is actually no qualification prescribed and we all know that it is a very highly specialised job; to avoid that political appointments are made, is it not necessary that person who has experience of about 15 to 20 years in Audit and Accounts should be taken as CAG and nobody else?

SHRI A. K. CHANDA: On that formula no one, so far, appointed as CAG, would qualify Shri Narhari Rao most of the time outside the Department. I left after six years of Service in the Department. For two years I was a probationer.

The view that has been held is that this office should be held by someone (as was raised by my Hon'ble friend Umanath) who has extensive experience of the Administration as well. To-date nobody has been appointed A. G. who has not been a Secretary to the Government of India.

Not necessarily Finance Secretary. I was Production Secretary when I became CAG.

SHRI M. ANANDAM: Some minimum qualification is necessary, may be LAAS and experience of 10 to 15 years.

SHRI A. K. CHANDA: I do not think you should circumscribe the

choice or limit in a particular manner. I do not want it for a particular Service or period of experience. He has large administrative responsibilities and he has also to weigh up matters in exercising discretion against his wider knowledge of administration as well as the needs of the country.

I will give you one example which might be of interest to the Committee. Once there was an Audit paragraph on purchase of rice made from a country in the South East Asia. There had been a payment of Rs. 10 lakhs which was not fully accounted for and a massive paragraph had been drafted on it. The Secretary of the Ministry concerned rang up to say that he wanted to come and see me. He came and saw me with a mass of papers.

He said that this amount had to be paid as on 'inducement, for the rice had to be imported to India. The question was either we face a famine in India or pay Rs. 10 lakhs as an inducement. That had to be done. I do not think that an Accountant could have taken that broad view even where the interest of the country was involved. This sort of things constantly happen. And you must have as Auditor General somebody who does not belong to any particular Service or any limited field of experience. He should be a person who has wide administrative experience. Judging by what Mr. Uma Nath said, these are considerations which are very valid. And I would not like to limit the field of choice to any particular category of Officers in a particular Department.

SHRI S. S. KOTHARI : Would you agree that political appointments should be obviated? That is probably at the back of the hon'ble Member's mind. Political appointments like disbursement for the service rendered.

SHRI A. K. CHANDA: Political inducement.

SHRI M. ANANDAM: One more question. In the Draft that is with us, there is a Provision to say that if

the Government wants to relieve the Comptroller and Auditor General of performing his duties in respect of any particular Undertaking or Government it could be done. Do you agree with this type of attitude on the part of the Government to relieve the Auditor General from performing his duties?

SHRI A. K. CHANDA: Well, if he is to be relieved from any responsibility, it should be for the Parliament to determine. But there again, in our system the party which provides the Government enjoys majority in the House, it can do so. I am not taking of today. Normally, the Government reflects the majority view in Parliament. Really speaking, the Government can do things which will be endorsed by Parliament.

SHRI M. ANANDAM: But don't you for the last word to be with the Auditor General whether he should perform or not? If he feels that he should perform the functions even the Parliament or the Government should not interfere.

SHRI A. K. CHANDA: I do not know to which Clause you refer.

SHRI M. ANANDAM: It is Cl. 15—proviso.

"Provided that the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor General, after consultation with him, from making any scrutiny in respect of any body or authority receiving such grant or loan." 'After consultation' has been interpreted by the Supreme Court that you can even by-pass the consultation.

SHRI A. K. CHANDA: It is not concurrence.

SHRI M. ANANDAM: In certain cases it may be interpreted.

SHRI S. S. KOTHARI: But, which would you prefer—concurrence or consultation?

SHRI A. K. CHANDA: Personally, I would prefer concurrence.

SHRI M. ANANDAM: I think it should be concurrence and not consultation.

SHRI A. K. CHANDA: That is entirely a matter for the Committee to decide.

श्रीमती सरला भट्टरिया : जो कुछ मेरे सुझाव हैं वह कुछ अंशों में तो आ ही चुके हैं, लेकिन जो मौलिक बात मैं कहना चाहती हूँ वह यह है कि आर्थिक खर्च पर रोक लगाने के लिए या उस को नियन्त्रित करने के लिए, उस में जो कमियाँ या गलतियाँ हैं उन को दूर करने के लिए हम इस संस्था को रखे हुए हैं। अब तक जो बहस हुई है उससे मेरी समझ में इतना ही आया है कि जब जब कमेटी बैठती है तब तब उन के अधिकारों को सीमित किया जाता है; जब उन को फाइनेन्स मिनिस्ट्री को मार्फत काम करना होगा तब वह उस मंत्रालय से सम्बद्ध विभागों या सार्वजनिक और निजी क्षेत्रों की जांच कर के उस की कमियों को कैसे बतलायेंगे ?

सभापति महोदय : उन की भी यही दिक्कत है।

श्रीमती सरला भट्टरिया : उन की भी दिक्कत को समझ कर ही तो मैं अपने सुझाव रखना चाहती हूँ। मैं समझती हूँ कि इस बिल के द्वारा उन के अधिकारों को और बढ़ाया जाना चाहिए ताकि सत्तारूढ़ दल पर नियन्त्रण रखा जा सके। यदि उनके ऊपर इस तरह से प्रतिबन्ध धीरे धीरे बढ़ते गये तो सरकार के ऊपर नियन्त्रण नहीं हो पायेगा। आज कल जितने अष्टाचार के केसेज आते हैं उन को मंत्रालय तय करेगा या आडिटर जनरल की तरफ से तय किया जायेगा ? जिन बातों की सफाई जनता के सामने होनी चाहिये अगर उस को आडिटर जनरल के अधिकारी नहीं करते तो फिर कौन करेगा यही संस्था है जो ऐसा कर सकती है। जिस प्रकार से यह इंडियन एयरलाइन्स या एअर इंडिया की जांच करते हैं उसी प्रकार से इन

को खाद्य निगम या जीवन बोमा निगम आदि की जांच का अधिकार भी होना चाहिए।

सभापति महोदय: आप पूछना क्या चाहती हैं विटनेस से?

श्रीमती सरला भवोरिया : मैं उन से कुछ नहीं पूछना चाहती हूँ। मैं केवल कुछ सुझाव देना चाहती हूँ।

सभापति महोदय : जब हम लोग स्वयंम बैठेंगे तब आपस में उन सुझावों पर विचार कर लेंगे।

श्रीमती सरला भवोरिया : उस समय शायद मैं न आ सकूँ, इस लिए कुछ सुझाव इस अवसर पर देना चाहती हूँ। जब सरकार यह कह रही है कि हम समाजवादी समाज बनाना चाहते हैं और समाजवादी व्यवस्था को लागू करना चाहते हैं तब इस की भी जांच होनी चाहिए कि सार्वजनिक क्षेत्र किस तरह से काम करते हैं, साथ ही इस की भी जांच होनी चाहिए कि अफसर और मजदूर के बीच किस प्रकार का अन्तर है। अफसरों की ऐयासी पर भी प्रतिबन्ध लगाना चाहिए। इसके साथ ही, जैसा और सदस्यों ने भी सुझाव दिया, इस संस्था को अधिक से अधिक अधिकार दिया जाना चाहिए। इस पर कम से कम प्रतिबन्ध होना चाहिए, ताकि वह निष्पक्ष रूप से काम कर सके।

मैं यह भी कहना चाहती हूँ कि हम को जो एजेंडा भेजा जाता है उस का हिन्दी अनुवाद भी हम को मिलना चाहिए। हम ने इस बारे में बार बार लिखित रूप में दिया है।

सभापति महोदय : आप को बिल तो मिला होगा।

श्रीमती सरला भवोरिया : वह तो मिला है लेकिन सरकार की तरफ से कहा जाता है कि हमने हिन्दी अनुवाद का पूरा प्रबन्ध किया हुआ है तब फिर एजेंडा भी हिन्दी मिलना चाहिए। हम को कभी भी एजेंडा हिन्दी में नहीं मिलता।

सभापति महोदय : मैं भी अपनी तरफ से जोर डालता हूँ, लेकिन जब वह वक्त पर आ जाता है तब तो उस को ट्रांसलेट कर लिया जाता है पर एन वक्त पर आता है तब मुश्किल हो जाती है।

श्रीमती सरला भवोरिया : जब सदस्यों को यहां बुलाया जाता है और इतना खर्च किया जाता है कमेटी के ऊपर तब हम को ठीक से सारे कागज देने चाहिए।

SHRI J. M. IMAM: The law provides that the Auditor-General should submit his report to the President who in his turn sends it to the Government. Are all your observations sent to the Government and then to Parliament? Or, was there any case when your recommendations were not sent to Parliament but were kept to themselves by the Government?

SHRI A. K. CHANDA: Before the audit para is drafted the Government is given every opportunity to furnish its explanation on the irregularities and if the CAG is satisfied with the explanations offered, he excludes those objections.

The point raised by you is also important in one sense. I was told that in the old Bombay State at one time the audit reports were not presented to the House for several years. There is no time-limit imposed on the president or the Governor to present the report to the House.

SHRI J. M. IMAM: You should have made some observations regarding the irregularities by the Government and by the officers. Is action taken by the Government? What is your experience? Are some of them just skipped over?

SHRI A. K. CHANDA: The report of the CAG is considered by the PAC which examines witnesses. After that they either drop an audit para or endorse the observations of the Auditor-General. Government are supposed to act on the recommendations made.

SHRI J. M. IMAM: Audit is done by subordinate officers. Is there any instance of the Government officers trying to influence them?

SHRI A. K. CHANDA: I am not aware of any case where anybody has tried to influence me.

SHRI J. M. IMAM: There are some public sector projects. The HSL, the Bhopal Heavy Electricals, etc. Auditing is done by their own auditors who generally enter into some formalities but do not consider the propriety of the expenditure. HSL is suffering a great loss of Rs. 30 or 40 crores has the Auditor General every gone into the propriety audit or the efficiency audit of these undertakings?

SHRI A. K. CHANDA: In all the public sector undertakings, there is test audit by the CAG. I do not know what is the present position.

I want to draw the attention of the Committee to one matter. I came here at the invitation of the Committee to express my views. I was asked to submit a memorandum. I am not going to be the beneficiary of anything you do. Therefore, I was a little bit surprised when a suggestion was made that I had given a slanted memorandum to the Committee, suppressing certain relevant comments. In a manner of speaking, the memorandum reflects the views of somebody who had held the office of the CAG and whose integrity had not been questioned earlier. I do not think that his integrity should be questioned just because he has retired.

MR. CHAIRMAN: That is over now.

SHRI J. M. IMAM: Regarding the audit done in the States is it the responsibility of the Accountant General and his staff?

SHRI A. K. CHANDA: Our Constitution makes audit a Central subject and therefore the Accountant General's office is part and parcel of the Auditor-General's outfit; it is not part

of the State Government. Actually the State audit reports are countersigned by the CAG.

With the formation of the linguistic States, other problems may soon arise. The CAG may not be able to countersign the reports because I do not think we can expect any CAG to be a linguist knowing fourteen languages.

SHRI J. M. IMAM: Questions like the expenditure incurred by the Prime Minister in U.P. tour also will arise.

SHRI A. K. CHANDA: I think I might take the Members into confidence. When I was the Auditor General the question of ministerial travel to attend Congress sessions came to my notice and I wrote a letter to the Prime Minister. I also wrote a letter to the Accountant Generals that their T.A. bills should be properly scrutinised and my orders should be obtained before passing any of them. The Prime Minister asked: Do they not do any work at that place on its environs? I explained that there were 60 Ministers on duty in the vicinity of the venue of the Congress session. He issued a letter to the Chief Ministers and also the Central Ministers. I think it must be on record.

SHRI J. M. IMAM: What other suggestions do you make to ensure the independence of the audit and to see that they are free from influence of the Government?

SHRI A. K. CHANDA: I think the CAG has been by and large quite independent. As I mentioned earlier his dependence on the Government for getting his staff and other requirements sanctioned is one of the irritating provisions; the sooner it ends the better it will be.

SHRI THILLAI VILLALAN: At present the CAG is made responsible for compiling accounts and also auditing. Is it not necessary to separate the two so that auditing may be effective and independent?

SHRI A. K. CHANDA: I entirely agree with you that audit and accounting are two separate things and should be separated. But it is wrong to suggest that the Auditor-General is really the accounting officer. Payments are made in the treasuries and they send statements to the Accountant General who merely classifies them and puts them in a compilation; he is not the accounting officer really. We tried the separation in three places—a section of the Government of India, in Saurashtra and in Bengal.

SHRI THILLAI VILLALAN: In other words you are responsible only for the compilation and not the actual accounts?

SHRI A. K. CHANDA: This question was taken up even before Independence. A scheme of separation was worked out in certain departments in what was then known as the United Provinces. Not only did it prove very expensive but it also proved very inefficient. When I introduced the scheme on an experimental basis in a major department in Saurashtra and West Bengal and also in a major department at the Centre, I found all kinds of funny things happening. A lot of cheques were written out on the 31st of the month and kept in the safe of the departmental officers for being handed over months after the year had close. This irregularity came to notice. It is an expensive business to separate audit and accounts. I would personally advocate separation, but in India the difficulty is formidable because the payment relating to one department arises all over the place; they are not made by cheques centrally. In the United Kingdom, which is a small country, the Secretary to the Ministry is also called the Accounting Officer, appointed by the Treasury, and in that capacity he is responsible for all payments, to see that the grants are not exceeded. We adopted the title "Comptroller" from the United Kingdom without realising the implications. The Auditor-General in India has never functioned

as Comptroller-General. In the United Kingdom, his function is to see that every payment made is properly chargeable on the Consolidated Fund and that the grant made to a Ministry is not being exceeded in the head provided and so on. But until the banking system develops to such an extent in India that the Ministry here or the departments in the States are able to issue cheques, I do not think it will be possible to bring about separation of audit and accounts. After experimentation, we decided to disband separation which was expensive and yet not producing results we wanted. That is the reason why it has become increasingly difficult to separate the two. I would personally welcome it, but we should create conditions in which it is feasible.

MR. CHAIRMAN: At present our telecommunication system's accounts are separate. I was told that this was the condition: it seems that the World Bank or some other international financial institution said that unless you do this we will not give you development loan. On that account probably this was done but that would be very expensive.

SHRI A. K. CHANDA: Apart from that, the point is in the case of the telecommunication services, all payments are made by cheque from this end. Take the case of pensions to officers, soldiers and other people who have served in the defence forces. They go and settle down in their villages. They obtain their pension from sub-treasuries and that has to be classified in the department accounts under that head. That can only be done at the point at which the payment is made. If we can centralise the payments, then there will be no difficulty. I think even today in one department in the Government of India, there is this separation.

SHRI A. R. SHIRALI: It is in the Food Department (Rehabilitation).

SHRI A. K. CHANDA: So, where payment can be centralised and brought into one compilation, it is possible to separate. I am sure that even the present Comptroller would

welcome anything that is done to divest him of this responsibility, he has responsibility of reconciling the accounts with the various departmental officers. This often proves a formidable task.

SHRI THILLAI VILLALAN: About the status of the CAG, I entirely agree with you that the present position given to the CAG is deplorable. But I want to know from you and I want you to give us exactly a rough sketch of the official ladder wherein the status of the CAG would fit. Can you give us the exact rung of the CAG in the official hierarchy?

SHRI A. K. CHANDA: When you discuss it among yourselves, you will be able to produce an correct order of precedence for CAG. You can have a look at the official ladder and decide where the CAG should come in.

SHRI THILLAI VILLALAN: Can you say exactly where the rung of the CAG could be fixed in the official ladder?

SHRI A. K. CHANDA: I think it is best left to the superior judgment of this Committee.

SHRI SUNDAR MANI PATEL: At the outset of your talks with us, you made an observation that the CAG is looked upon by the Ministries as an enemy. May I know the causes, the circumstances and the instances which prompted you to make such an observation?

SHRI A. K. CHANDA: I put it in one sentence in the light of experience, but since you have raised this point, I shall explain it. You know we have not yet quite reached that stage in the evolution of our democratic system where the administration feels or the Ministers feel or the higher echelons feel that they should really know whether anybody has done anything which is not in the interests of the Government or the country or which is improper. I think Mr. Roy once spoke to me that where Ministers confine their responsibility

to laying down policies and principles and leave the administration to the departments or the Secretaries of the departments concerned, they welcome any observation made by the Audit because there is no direct involvement by themselves in the decisions taken. That is unfortunately not the case so far as India is concerned, and therefore, whenever audit says anything which reflects on the Minister or the Secretary or the whole department, they feel naturally aggrieved that anybody should bring up their lapses to the notice of Parliament which is the supreme authority in any parliamentary democracy. That is the basic cause of disharmony between the Auditor-General's organisation and the administration. There is no other cause. As I said, the Auditor-General should be looked upon as an aid not only by Parliament but also as an aid by the administration. After all, a Minister or a Secretary cannot know what is happening in his farflung empire. As you all know, we imbibed from the British empire-building proclivities. When audit brings to the notice of the administration any lapse on the part of the subordinates and the lower echelons, the administration takes action, but where the higher echelons are themselves involved, they feel aggrieved and look upon audit as a hostile element.

श्री भवानी प्रसाद तिवारी : आपने मैमोरेण्डम में लिखा है कि जो ड्राफ्ट बिल है उसका सम्बन्ध में जो प्रश्न पूछे जायेंगे उनके उत्तर आप यहां पर देंगे । मेरा सिर्फ एक प्रश्न है । ऑडिटर जनरल की जो स्थिति आज है और जैसा कि इस ड्राफ्ट बिल में सुझाव दिया गया है, इसमें आप क्या सुधार देख पाते हैं या नहीं और देख पाते हैं तो वह क्या है और जो खराबी देश पाते हैं, वह खराबी क्या है ?

श्री ए० के० चन्दा : मैं ने तीन बातें कही हैं । एक ऑडिट का स्कोप क्या हो । दूसरे, जिन कम्पनीज स गवर्नमेंट का सब-

स्टेंशल इन्स्ट्रुमेंट है, क्या ऑडिटर-जनरल उन का ऑडिट करें या नहीं और तासरे, जिन संस्थाओं को गवर्नमेंट की तरफ से ग्रांट दी जाती है, उन पर जो कन्डीशनज इम्पोज की जाती हैं उन्हें फुलफिल किया जाता है या नहीं, ऑडिटर जनरल यह देखने के लिए उन का ऑडिट करें या नहीं।

श्री भवानी प्रसाद तिवारी : आज जो स्थिति है, ड्राफ्ट बिल की व्यवस्थाओं द्वारा उस से कदम आगे बढ़े हैं या नहीं ?

श्री ए० के० चन्दा : कदम आगे नहीं बढ़े हैं, पीछे हटे हैं।

श्री भवानी प्रसाद तिवारी : कौन से कदम पीछे हटे हैं ?

श्री ए० के० चन्दा : यह कहना बड़ा मुश्किल है। जनरल ट्रेंड ही यही है।

(Witness then withdrew)

(The committee re-assembled after lunch at 15.30 hours)

2. Shri P. C. Padhi.

(The witness was called in and he took his seat)

MR. CHAIRMAN: We welcome you, Mr. Padhi. The committee is very grateful to you for the note you have given, which is exactly to the point. If you kindly explain the points you have mentioned in the note orally to the members, it will benefit the committee. Thereafter, members may ask some questions.

SHRI P. C. PADHI: Yes, Sir. The first point is about the extension of the Comptroller and Auditor General's jurisdiction to audit the accounts of companies in which Government have substantial interest. I have suggested that where Government's stake is 25 per cent of the

share capital of a company or Rs. 1 crore of equity capital, the Auditor General should have jurisdiction. It has always seemed to me that to insist on 51 per cent of share capital was excessive and it has excluded the Auditor General's purview in cases where he ought to have had jurisdiction. I was told that other eminent bodies who have considered this question have also arrived at the same view and have suggested that the limit should be reduced, in order that Government's interests may be watched in regard to companies where Government has a substantial stake. Rs. 1 crore is a large sum of money and therefore Government's interests have to be watched irrespective of the percentage it bears to the total share capital. Similarly, 25 per cent of shares in a company would in practice entitle any shareholder to become the Chairman of that company. So, if Government has 25 per cent share capital in a company, Government certainly have the right—I mean Parliament has the right—to have a scrutiny made of the accounts of the company through the Auditor General, who is their agent for this work. I have mentioned the instance of Jessop and Company, where I am told Government's shareholding is Rs. 50.13 per cent. It has been deliberately kept at a fraction of a percent less than 51 to take it out of the Auditor General's purview. If we are to add with Government's holdings the holdings of concerns like LIC, it will amount to nearly the full capital. Yet, it has been left out because of the rule of 51 per cent.

The next point is about the audit of accounts of large Government contractors. I have suggested that where contracts are entered into not on the basis of open tender but on the basis of negotiations with individual contractors, and the size of the contracts is above Rs. 1 crore, then the Auditor General should come in. The law itself should state that every such contract would have implied in it the condition to the effect that the accounts of the contractor can be scrutinised by the Auditor General.

When I was in service we had come across similar provisions in the American law where the Auditor-General of America does come in to scrutinise the accounts of contractors. It seems, as a result of this scrutiny, they have actually recovered very large sums from contractors in America. If a country like America felt the need for such a provision, we in India, I feel, must have a larger need for a similar facility for parliamentary control. After all, there are circumstances where officers either through ignorance or through inexperience, incompetence, negligence or even worse things might enter into commitments on behalf of Government which later on might prove to have been unwise, unprofitable and unbusinesslike. In such cases there should be a remedy open to the public—after all, it is a public contract—to recover these unmerited gains as a result of scrutiny by some independent authority like the Auditor-General. I understand that the Administrative Reforms Commission also has made a similar recommendation, namely, that the American precedent should be followed.

The third point is about clause 14 of the Bill which makes the recipient of any Government loan, bounty or grant-in-aid subject to audit if it is wholly financed by the loan or the grant-in-aid. There may be cases where a small fraction may come from outside which should not enable it to escape from audit by the Auditor-General. The suggestion specifically is that for the word "entirely", the words "wholly or mainly" may be substituted.

The marginal heading, incidentally, also would need amendment if the suggestion is accepted because the marginal heading reads, "Audit of expenditure of Bodies or authorities financed from Union or State Revenues." The word "mainly" should be inserted here also before the word "financed."

The fourth point mentioned in my note is about audit of the Foreign

Exchange Control Procedure and Practice. This idea came to me when I was a member of the Committee, known as the Sarkar Committee, which investigated a small number of transactions in connection with export and import of steel. There the Committee found that there are instances where the traders had exported but had not fully accounted for all the export earnings and the shortfalls had not attracted the notice of any of the controlling authorities. Similarly, there were cases where imports of steel in excess of the permitted values had been made and nobody had inquired into the source of the extra foreign exchange with which the additional imports could have been made. *Prima facie*, there was some lacuna either in the authorised procedure or in the implementation of that procedure. The Committee, of course, did not go in detail into the matter but left it merely to the Reserve Bank to pursue the inquiries. It seemed to me that there was no single authority which pursued these individual cases at all the stages of the transaction and, therefore, I said that the Auditor-General could be the most appropriate authority to have a general review of the control procedure and supplement it by an audit of individual transactions, that is a test check to see that the authorised procedure is implemented.

I have given reference to the recommendations made by me in my note of dissent attached to the Sarkar Committee Report and the appendices which contain the views on this very question from the Secretary of the Commerce Ministry, the Iron and Steel Ministry and the Finance Ministry. If the Members of the Committee would be pleased to go through the note and the appendices to the report, that contains all that I have got to say on the subject.

The other suggestions are drafting improvements which I think, will be necessary to make the intention clear. The suggestion about the proviso to clause 15 (1) is a drafting

matter, but the second part of the suggestion is a matter of substance. The proviso says:—

"Provided that the President, the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor-General, after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan."

The word "scrutiny" has been used in the substantive part of clause 15 (1) with reference to the scrutiny of Government papers, whereas the intention here is to relieve the Auditor-General of the scrutiny of the papers of the grantee or the borrower. The proviso as it is might well be construed to mean the Government papers while the intention is to mean the papers of the grantee or the borrower. It is purely a drafting matter.

The second part is a matter of substance. I have suggested that clause 15 (2) is unnecessary because it says that as a general rule the Auditor-General shall have nothing to do with the accounts of any body or corporation or authority if the law by or under which the body or corporation is established requires that there should be an auditor of that body or authority. I feel that is not a good enough reason for excluding as a rule the Auditor-General's jurisdiction. The auditor of a body or authority is not concerned with the transactions of the body or authority with Government. The words here are such as to exclude even a company because it refers to not merely a corporation established by law but may also include a company because it is a body corporate established under the Companies Act.

As I have said the notes on the clause seem to imply that the reference was only to corporations like Employees State Insurance Corporation and things like that. But actually the words used in sub-clause (2) would exclude companies which may have taken very large loans. My suggestion is that Sub-clause 2 is unnecessary. All cases which because of any special or particular reason have to be excluded from the Auditor-General's purview may well be dealt with under the proviso to sub-clause (1) of clause 15 and sub-clause (2) is quite unnecessary.

I have made certain suggestions for minor amendments. Clause 9 of the Bill says that all matters other than those relating to pay, pension or leave of the Comptroller & Auditor-General will be regulated by the Rules which apply to a Secretary to Government. There are matters which you cannot say are matters not coming within salary. There also they cannot therefore be dealt with under this clause 9 as it stands because if it deals with salary, we must go back to the clause dealing with salary. There are two matters which as I have mentioned are of the nature of salary. The Delhi City Compensatory Allowance is of the nature of salary and the Auditor-General is drawing the Delhi City Compensatory Allowance and unless it is specifically mentioned either in clause 9 or earlier in the clause relating to salary, its admissibility after this Bill is passed may be open to doubt.

Similarly occasions might arise for the Auditor-General to draw a house rent allowance when for temporary reasons conceivably he may not be allowed a Government quarter. In such an event the need for giving a house rent allowance would arise and provision therefor should be made specifically.

The last point I have suggested is about Clause 21. You will see that the Bill imposes many duties on the

Auditor-General. It not merely gives him powers but also imposes duties on him. In some of the clauses of the Bill he has merely the right to demand reasonable facilities for inspection of books. Now they cannot perhaps be legitimately called powers. Duties are not powers. For instance a law may impose certain duties on a clerk or somebody. We cannot say that he has got the powers under the law. I suggested that there must be specific mention of the word 'duties' being delegated, the power to delegate his duties and also the power to authorise anybody to demand facilities which shall be conferred on him. That is all I have suggested. These are the few suggestions which I have made in my notes.

SHRI D. N. PATODIA: We have listened to your evidence very carefully. Your first point was by giving the illustration of Jessop & Co. and to suggest that whenever Government has any specific interest either of 25 per cent or Rs. 1 crore, whichever is higher, the Auditor-General should have the power to audit the books of that company. May I know what type of companies you have in view when you have suggested this and what type of Government interests you have in view? For instance the Government may be interested in various companies in various ways. It may be in the form of direct subscription to the shares of the company. It may be in the form of subscribing to the shares by Government-controlled financial institutions. It may be in the form of subscription to shares by the State Bank of India or it may be in the form of substantial loans. What type of Government interest you have in view and what type of companies you have in view?

SHRI PADHI: The type of companies is determined by Companies which are actually being financed by Government. My intention here was to confine this suggestion to those companies where Government directly have been investing and not those which are assisted or financed

by banks or even by LIC. They may be Government corporations but they are distinct from Government. I have also suggested that where it is considered inexpedient for good and sufficient reasons that Auditor-General should go in, there should be power in Government to exclude that particular instance from the Auditor-General's purview. The general rule that I have suggested should be that where Government owns 25 per cent of the equity or Rs. 1 crore of the equity, Parliament should have the right to be satisfied through an independent investigator like the Auditor-General.

SHRI D. N. PATODIA: Your second point in your note is with regard to large Government contractors with whom contracts may have been entered into by negotiation and not by inviting open tenders. Your suggestion is possibly made on the presumption that there is a possibility of large scale manipulations in respect of such contracts which are entered into by negotiation. Nevertheless, I hope you, as an experienced Accountant, are aware that scope for manipulation is by no means limited to the contracts by negotiation only and there is no dearth of cases when even in respect of open tenders by competition, such manipulations have taken place on a very large scale. Therefore, (1) we would like to know how you differentiate between the two and (2) would you say that even if the contract is entered into by negotiation, Government authorities are expected and in fact they do take sufficient care to see that even in the absence of competitive elements in the tender, Government's interest is properly safeguarded both with regard to the price and with regard to the quality of the job? If that be the case, how do you justify interference by the Auditor-General into the internal working of the contractors? You have given the illustration of American law. But in America the conditions may be totally different. Anything that is happening in America need not be good for India. Unless we are able to satisfy ourselves as to the desirability of this

measure which permits us to enter into the internal working of a company, how can we possibly justify this?

SHRI PADHI: As we all know, Government's affairs are dealt with by its employees and, therefore, there is every chance of the employer's interests not being sufficiently looked after by an employee. There are different types of employees. There are good ones and bad ones, efficient ones and inefficient ones, intelligent ones and people with not so much experience of the particular work which is being let out on contract. In such cases of large contracts where the stakes are very high and where the contracts have been entered into not as a result of open tendering, there is a chance for error of judgment on the part of the employee or the agent of the Government may have been in error landing the Government which is the public in avoidable losses or over-payments. So, as a safeguard, it is necessary that there should be some independent authority which should protect the interests of the public by scrutinising the accounts of the contractor in respect of a particular work, not in respect of the general affairs of the contractor, involved in the contract concerned. It is not for the Auditor General to roam over all the internal affairs of the contractor. The Auditor-General audits the accounts of the particular contract. My suggestion will also include the accounts of the sub-contractor because in the case of a large contract, it is usual for the contractor to let out some work to a sub-contractor. So, all these accounts must be seen by the Auditor General if the public interests are to be safeguarded.

The reason why I have excluded the tender cases is that in the case of tender offers, the only conceivable safeguard that you can devise is to see that the rates given to the contractor are competitive and reasonable. There is no other way of finding out whether they are reasonable or not except putting it to competition and bidding. Where there is no bidding,

where the whole thing has been arranged by talking it over, there is every chance that the rates may not be most economical rates obtaining at that time. In respect of those cases, where the contract is of a large size, the Auditor-General should have the authority to scrutinise the accounts of the contractor.

SHRI D. N. PATODIA: I think, you are aware that, even when the contract is by negotiation, a decision from the Government side is never taken by one or two individuals and that it is a combined decision of a committee consisting of various individuals representing various sections. It passes through various discussions and examination before any final decision is taken. If your argument is taken to logical ends, it would mean that wherever, in whatever form, the Government's interest is involved in a substantial way, the Auditor General should have the power and, in view of the economic conditions that prevail in our country, I think it will be difficult to exclude anything. The Government's interest comes in some form or the other in every economic and business activity. Therefore, if you start imposing such restrictions, don't you think that respectable firms will be driven away and that they will not be inclined to accept any such condition?

Then, I think, you are also aware that in respect of negotiated contracts, the Indian firms are relatively very few and that most of the contracts are entered into with foreign firms. Would you suggest that this particular restriction that you are thinking of imposing should be applicable to contracts entered into with foreign firms or would you like to classify a particular type of contractors?

SHRI PADHI: There should be the power with Government to exclude the Auditor-General in particular cases of contracts even though the contract may have been a negotiated one and a large one. But the general rule should be that, in the absence of reasons to the contrary, the Auditor

General should have the facility of investigating all these cases on behalf of Parliament.

SHRI D. N. PATODIA: In respect of anybody, whether Indian or foreigner?

SHRI PADHI: Where it is inconvenient or where it is inexpedient that a particular contract, although coming within the purview of the general provision to be made, should be excluded, well, such an exclusion can be made just as in Clause 15 (1) of the Bill, where there is a provision for excluding a particular case. There may be a provision of excluding some specific cases. But, generally, the contractors' accounts should be opened to inspection.

About your apprehension that respectable firms would be disinclined to enter into contracts with the Government, if such a law were enacted, I beg to differ because the respectable firms will have nothing to fear and that it is only the shady firms who will have everything to fear.....

SHRI D. N. PATODIA: It is not the element of fear that is involved; it is the element of involvement in the internal affairs of the company. Anyhow, I have got your point. Now, I come to another point.

SHRI S. S. KOTHARI: Before you go to another point, may I put a question on this point?

All that we have been discussing is that the Auditor-General conducts a post mortem in most of the cases. In regard to contracts which are negotiated, what would be your reaction to a suggestion that at the final draft stage, it should be reviewed by the Auditor-General so that instead of conducting a post mortem of the contract, he sees if there are any lacunae or shortcomings or lapses which are likely to result in the losses and he tries to remove them before the contract is finally entered into?

I may give you the background of this suggestion. In fact, I had introduced a Bill in the Lok Sabha which was discussed that there should be a central authority in the Ministry of Finance which should review these agreements at the final draft stage. The hon. Minister did not exactly agree to my suggestion. He said that he would try to ensure that defective agreements were not entered into.

Now, what would be your reaction if I suggest that the Auditor-General is given the power to look into the draft agreement and see if there are any lacunae or shortcomings instead of just conducting a post mortem later on. Do you feel we should be able to obviate vitiated contracts or contracts with some lacunae that way?

SHRI PADHI: The suggestion is, no doubt, a good one. But I would submit that, as a general principle, the Auditor-General should not participate at the stage of decision-making. If he were to do so, he would lose his independence and he would probably be hustled into taking decisions or accepting suggestions which he might have to repent later on.

The audit is an independent examination which has to be done by somebody who is uncommitted to the execution of the contract in the initial stage. The post mortem is always useful and it enables the Government, the Parliament and the public to find out what has gone wrong and to suggest remedies for the future. ? Also, if the suggestion for the Auditor-General's audit in the case of contracts is accepted, the law should provide that any overpayments, any excess payments, any unreasonable payments, claimed by the contractor should be recovered. The law should, simultaneously provide that also. Simultaneously, there should be a provision made for recovering any excess payments that may have been found to be made as a result of the audit.

SHRI S. S. KOTHARI: You are well aware that in large commercial companies, there is a provision for what is known as continuous internal audit. The internal audit is there and, sometimes, there is continuous internal audit. The idea is that instead of reducing it to a *post mortem* which, in my opinion, has very limited value, a continuous appraisal of transactions is done. The idea behind it is this. Whenever there is a lapse it is identified—and a corrective action is taken along the same lines. It may be a little revolutionary idea. But, whenever a new idea comes up, I think everybody opposes it. That is what is happening in this country. My idea was that if in the final draft stage, the agreement goes to the Auditor-General, he scrutinises that and he may say that these are his suggestions. The executive may or may not accept them. On the other hand, there would have been tremendous losses to the public undertakings.

SHRI PADHI: About the internal audit, all I can say is that the existence of internal audit does not dispense with the need for an external audit. Even to-day, the Auditor-General is unofficially consulted in certain matters by Government. But the understanding is that the consultation is unofficial and it does not in any way commit the Auditor-General to a final acceptance of the position if later on he were to find any flaws in it.

SHRI S. S. KOTHARI: Anyway you have placed your point of view and I have placed my point of view.

SHRI M. ANANDAM: I want to ask a question on one point. In the case of the contractors, the contract is awarded by negotiations. Ultimately there is an agreement between the Government and the contractor. So, any payment that is made is made on the basis of the agreement. It is a contract. After all he has to pay back the money if he has already received

excess money. My point is this. If there is a contract, the Government pays the money to the contractor on the basis of the agreement. If there is an excess payment it is known only by examining the accounts of the Government and by examining the contractors accounts that you will be able to know it. I have not been able to understand what exactly you want to arrive at by examining the accounts of the contractors. By an agreement you have paid him all the money. It is excess payment that arises out of the contract with Government. When it is possible for you to examine the accounts of Government and examine the contract with Government to see that the excess payment is recovered.

There is no purpose served in examining the accounts of the contractors. That is all what I want to say.

SHRI PADHI: Sometimes parts of the work may have been done according to certain detailed analysis furnished by the contractor. It is not possible in those cases to say whether the analysis on the basis of which a particular rate had been arrived at was based on facts or on foreseeable facts. For example, if in regard to a particular work it had been urged by the contractor that labour would be paid at such and such a rate for that special type of work and upon such rates, it is only on examination of the contractor's accounts that you can find out whether those rates alleged by the contractor had actually been applied. For instance, if a contractor were to say that the work is of such a highly specialised nature that it can be done only by some expertly trained men, then they will have to be paid at such and such a higher rate. It is possible that actually he could have got it done by low-paid Indian workmen. In such a case it should be quite improper for the contractor to get away with the excess payment which he received on the basis of such rates which he had claimed for employing highly skilled labour. I am just giving this as an example.

SHRI M. ANANDAM: The fallacy of the argument is that the person who was given the contract was ignorant of the facts and circumstances in which the workmen were employed. Normally for such a contract experienced engineers entrust the work to a contractor. It is not as if an engineer does not know anything but only the contractor knows. Even if the contractor says that the experienced skilled labour must be employed and if he gets an *ex-gratia* payment with the help of engineers to do that job, in that case the Government will be entitled to recover it from the contractor by virtue of the agreement. It is necessary for Government to pay the contractor according to what they have agreed. This is the fulfilment of the contract which is a crucial question and not as to how it has been fulfilled. Ultimately the work has to be done according to the terms of the contract. Whatever be the method or measures the contractor might adopt we are not here to question that.

MR. CHAIRMAN: I think you have put your case and he has also put his case. There cannot be any decision on this. We may proceed further.

SHRI D. N. PATODIA: Your third point was with regard to desirability of the C. & A. G. to audit. "Where a body or authority is mainly financed by Government loans or grants or subsidies.....etc., etc." May I know whether your suggestion is restricted to the grants, loans and subsidies of a charitable nature or do they also include such subsidies of a commercial nature?

SHRI PADHI: There may be instances where they may not be regarded as charities in the legal sense—I am not a lawyer—and I know of many good cases which are useful to society which are not technically regarded as charities.

SHRI D. N. PATODIA: May I know whether those include such subsidies

of a commercial nature or they do not?

SHRI PADHI: Where subsidies are hedged in by the conditions then only the Auditor-General will come in. Normally where a subsidy is paid outright or a grant is made to an institution merely because it is very desirable and the Government does not want to undertake directly the responsibility for that type of work; it is a worthwhile type of work and the Government makes a lump sum grant-in-aid. There the Auditor-General will be confined merely to see that there is a voucher for the payment made. There can be cases where much more elaborate conditions would have been imposed. It is only in those cases that there can be any real audit.

SHRI D. N. PATODIA: Let me illustrate my point. I shall give you two illustrations. Suppose Mr. X is an exporter and he exports at a loss. The Government of India, on the condition that Mr. X must complete the export of 100 thousand tons, agrees to grant him a subsidy of Rs. 10/- per ton. This is one illustration. Suppose Mr. X wants to set up a new factory for manufacture of a certain product. In order to encourage him to set up a new factory, the Government of India gives him a subsidy in the rate of water rates and electricity charges.

Would you now consider these subsidies to be within the purview of the Auditor-General or not?

SHRI PADHI: Yes. In the first case where the subsidy is dependent upon the quantum of losses sustained by the exporter, it should be subjected to audit, that is to say, there should be a cost audit to satisfy oneself that the guarantee did sustain a loss and that the loss did justify the actual subsidy being given. In the other case where the grant-in-aid is the equivalent of the expenditure on water supply, electricity and so forth, it is to be found how much water and electri-

city was consumed. The audit will not go farther than that. The audit will depend on the conditions of the grant-in-aid. For instance, if a sugar manufacturer was told that for every ton of sugar exported he would be paid such and such a rate of subsidy on the ground that the export price is less than the manufacturing cost, then obviously the audit will have to go into the cost of manufacture to see whether this subsidy was justified. Now an efficient manufacturer will have to be given less subsidy than an inefficient one. It does not mean that inefficient one is being encouraged. It may be that the Government wants to promote exports and you cannot improve his efficiency, so you have to give him more subsidy. But this question of subsidy, if it is hedged in by conditions, it must be looked into on behalf of Government, otherwise there is no safeguard against being misled by those applications for grant-in-aid.

SHRI D. N. PATODIA: I presume you are aware of the trading methods and techniques in India as well as methods and techniques adopted in the matters of import and export promotion. If that be the case you should be aware that host or a large number of items to-day in India are being exported at the instance of Government of India under Export Promotion Scheme and subsidy is being granted. I hope, you are aware these subsidies are fixed after protracted negotiations and mostly by the Government. This is when exporters come into picture so that if subsidies are granted, exports may be promoted. After the subsidy is granted, there are cases where exporters may incur larger loss or where exporters may make larger profits depends upon the conditions prevailing in the market from time to time and if your suggestion is accepted it will only create a chaotic condition in the trade of export. He will be subject to your scrutiny. How do you justify interference?

SHRI PADHI: The only answer is that where Government wants to sub-

sidise exports at a fixed rate per ton or per unit of export, it should say so and that rate would apply to everybody. In that case there is no question of further audit beyond seeing that the money has been paid and the export has actually been made. It would depend entirely on the conditions of the subsidy. The range and nature of audit will depend entirely on the conditions attached to the subsidy.

SHRI D. N. PATODIA: Would you suggest that whenever Government feels or whenever Ministry of Foreign Trade feels that a particular subsidy should be subject to the scrutiny of audit, it should be made a clause in the agreement between him and the exporter and only in respect of those contracts it should be audited. It cannot be made a general rule. Should I take that?

SHRI PADHI: The idea is that anybody who receives subsidy received it under the understanding that Auditor General may come in to see that the conditions of the subsidy are fulfilled.

SHRI D. N. PATODIA: My next point is with regard to your suggestion that whenever there is an element of utilisation of foreign exchange, it should be subject to the scrutiny of the Auditor-General. I believe every bit of ton that is exported or every bit of ton that is imported into India involves foreign-exchange. Should I take that the entire field of import and export trade should in a general way be subject to the audit of the Auditor-General.

SHRI PADHI: No, that is not my suggestion. I have suggested that the mechanism of control is laid down by the Reserve Bank who is the agent of Government in regard to foreign exchange control. The mechanism itself should be reviewed. The procedure laid down by the Reserve Bank should be reviewed. The entire procedure of foreign exchange control at various levels has to be reviewed by the Auditor General and he should also apply

a test check to see that in actual practice the authorised procedure is followed and secondly to see that the procedure itself is sound.

SHRI D. N. PATODIA: According to you it is limited between Auditor-General and the Customs and the Ministry of Foreign Trade or Finance and a private exporter or importer does not come in the picture excepting in supplying certain information that may be needed by the Auditor-General.

SHRI PADHI: Actually, the suggestion has nothing to do with private trade interest whatsoever.

SHRI S. S. KOTHARI: Are we to conclude that the affairs of the Reserve Bank of India do not come into scrutiny of the Auditor-General?

SHRI PADHI: They do not.

SHRI S. S. KOTHARI: What is your reaction to the suggestion that as in the case of other companies the Auditor General conducts supplementary test audit in the case of the accounts of the Reserve Bank of India also? Should the Auditor-General conduct a test supplementary audit?

SHRI PADHI: I would suggest that this excellent suggestion might be put to the present Auditor-General.

SHRI S. S. KOTHARI: We are putting it before the Committee.

SHRI PADHI: This idea that the Auditor-General should also have some limited jurisdiction over the affairs of the working of the Reserve Bank has often occurred to me personally but I have not made any specific suggestion in this matter.

SHRI S. S. KOTHARI: You found the Reserve Bank probably too big.

SHRI PADHI: There are certain aspects of working in the Reserve Bank where the activities of the Auditor General may have undesirable effects

on the loans, transactions, on open market transactions. So, in view of these aspects I have hesitated to make a radical suggestion.

SHRI S. S. KOTHARI: I do not regard it as a radical suggestion at all. The Reserve Bank like any other institution should not be above Parliament or above the Auditor-General or above the nation and I feel the Reserve Bank should also be brought within the purview. Their transactions should be a test supplementary audit.

SHRI PADHI: It is done by the Commercial Auditors.

SHRI S. S. KOTHARI: Why the Auditor-General should not?

SHRI PADHI: The Commercial Audit is a Balance Sheet Audit. It does not inconvenience anybody.

SHRI S. S. KOTHARI: It is not a propriety audit.

SHRI PADHI: It is not.

SHRI S. S. KOTHARI: In regard to foreign exchange suggestion it is an excellent suggestion as to why it should not be put to a test check. The Committee has noted. I think the Committee will take it into consideration.

SHRI M. ANANDAM: Coming to your first point about the audit of the companies in which Government is substantially interested, having less than 51 per cent shares, I just want to know whether it is your suggestion that Comptroller and Auditor-General should appoint auditors in respect of those companies?

SHRI PADHI: The present jurisdiction of the Auditor-General in regard to Government companies as defined in the Companies Act extends to probably giving approval.

SHRI M. ANANDAM: It is not so. The Auditor-General is the appointing

authority in all the Government companies.

SHRI S. S. KOTHARI: It is not like that. Auditors are appointed by the Government, acting through the Company Law Board, on the advice of the Auditor-General.

SHRI M. ANANDAM: Shareholders have no say. It is only governmental suggestion in respect of companies where the Government has substantial interest. Even in those cases where the interest is more than 25 per cent, the Auditor-General, in consultation with the Company Law Board, should appoint auditors.

SHRI PADHI: His jurisdiction should be exactly the same as it is given under the Companies Act.

SHRI M. ANANDAM: My feeling is that you are intruding into the affairs of the Company too much. I would only suggest that in such cases there may be a secondary or supplementary audit conducted by the Auditor-General.

SHRI PADHI: That is so even in regard to Government companies today.

SHRI M. ANANDAM: That is true. The appointment should be made by the company itself. But if the Government feels that it must have a supplementary audit, the Government should have a right to do it. But the appointment should not be taken over by the Government.

SHRI PADHI: That may be so, Sir.

SHRI S. KANDAPPAN: From the comments given to the Committee, if I correctly understood you, you are a man of procedural mind. I want to put a question regarding the procedure which is coming in the provisions of this Bill. So far as the fixation of salaries, pension and other things are concerned, do you consider that the procedure and process mentioned in the Provisions are cumbersome and difficult? I want your views on this procedural matter only.

SHRI PADHI: It has got to be made quite clear as to what emoluments, pension and leave an Auditor-General is entitled to. A high dignitary like the Auditor-General cannot be governed by rules made by the Executive Government, which rules can be changed from time to time. His conditions must be laid once for all by law. I do not suppose that these provisions are either complicated or unnecessary.

SHRI S. KANDAPPAN: There is one thing with regard to extending the jurisdiction of the Auditor-General over Companies where the Government has got substantial interests. Not only you, but even the other witnesses have also been insisting on this point. There is something in it, and I do appreciate the point. I had an occasion to visit one or two Companies as a Member of some other Committee. When we suggested that it should be brought under the purview and treated as a Government company for audit purposes, we found that the Company was zealous and very much disinclined to agree to our view. Naturally, our impression was that there was something fishy for not allowing the Auditor-General to come into the picture. But here, my point is that you should do something about 25 per cent of the share and Rs. 1 crore. So, what is your rationale for arriving at that figure? Have you something behind it to work out that figure or it just occurred to you that that would be a good basis?

SHRI PADHI: Firstly, those are the figures that have been recommended either by the Estimates Committee or the Administrative Reforms Commission. And it seemed to be for this reason that 25 per cent of shares in any Public Company would in practice entitle an individual to become its Chairman, because the other 75 per cent is so widely dispersed that there is no combination which could stand against an individual having 25 per cent by himself. In actual practice, you find in most of the Public Companies that the people in command do

not possess more than 25 per cent shares. So, 25 per cent of share capital owned by Government would in practice mean that the Government ought to have the command of the company. And the Government auditor i.e. the public auditor or the Auditor-General should have due control over this. On that basis, 25 per cent may be justified. And Rs. 1 crore is a very large sum of money and when the Government has as much as one crore of rupees as share capital, it is right and proper that there should be an audit on behalf of the tax payer.

SHRI S. KANDAPPAN: Another thing is about the check on imports and exports and the procedure that they adopt. We had come across a lot of anomalies in that, and there are Customs people, Reserve Bank and the Finance Ministry who do exercise some kind of check or take a review of the work and all that. And in what way do you consider that bringing the Auditor-General into the picture will improve the matters?

SHRI PADHI: Sir, I have no doubt that the procedures evolved by the Reserve Bank have been evolved after very careful consideration. The point is that in actual practice there might have been some lacunae.

SHRI S. KANDAPPAN: No, I think you will agree with me that there are considerable changes in the procedure that they have adopted in this Customs, basing on their experience. Whenever they find some lacunae, they have got some correcting machinery. So, do you think that bringing the Auditor-General into the picture will improve the things more?

SHRI PADHI: There is action by the Executive. And there is the review of that executive action by an independent authority. The two things are complementary and neither of them can be dispensed with.

SHRI S. KANDAPPAN: Even the Vigilance and the CBI have come into the picture many a time, and they do

suggest and on that, they change the rules and regulations. I cannot say that there is no lacunae. There are anomalies still. Do you think that the Auditor-General will improve the matters radically than what they are today?

SHRI PADHI: Take one instance. The RBI does not know how actually other authorities operating on the foreign exchange balance of the country function. It might be under the impression that no imports in excess of the value shown in the import licences are being allowed. But in actual practice these are being allowed. That is a case of violation of the RBI's procedure, but it may not be a violation of the procedure that is actually being followed in the offices operating on the foreign exchange balance. The Controller of Imports and Exports may have his own rules and they may not exactly dovetail into the procedure laid down by RBI. There is no common authority which reviews the working of controls in all the offices. My suggestion will introduce for the first time one common authority which will have the power to go into all these offices to see how exactly the controls are being operated.

SHRI SUNDAR MANI PATEL: In your tenure as Deputy Auditor General did government departments ever treat you like a subordinate?

SHRI PADHI: No, but they would probably very much like us to do their bidding. But the Auditor-General was sufficiently strong to resist any such tendency.

पं० भवानी प्रसाद तिवारी : मैं इन ड्राफ्ट बिल के बारे में आपसे पूछना चाहता हूँ कि कुछ तो आपके सुझाव ये हैं कि यह नहीं रहना चाहिए, जैसे धारा 1 में आपने कहा कि बिलकुल इस की आवश्यकता नहीं है। कुछ धाराओं में आपने संशोधन सुझाये हैं कि यह होना चाहिए परन्तु जिन धाराओं के सम्बन्ध में आपने कुछ नहीं कहा, मैं यह जानना चाहता हूँ कि क्या वह ड्राफ्ट बिल में रहें ?

SHRI PADHI: I have no comments to make on those views. I think those provisions are necessary in any Bill relating to the functions, duties and powers of the CAG. Where I have made no comments, by implication in my view those provisions are all right.

पंडित भवानी प्रसाद तिवारी : दूसरा प्रश्न आपसे इसी संदर्भ में करना चाहता हूँ कि आम तौर से इस ड्राफ्ट बिल के सम्बन्ध में आपका क्या इम्प्रेसन है कि यह ड्राफ्ट बिल ऑडिटर-जनरल के अधिकारों को अधिक सीमित करता है या अधिक विस्तार देता है ?

SHRI PADHI: I think it is just an attempt to define accurately what exists today and also perhaps to take the opportunity to give him such powers as Government feel he should have. But on this question, opinions might differ. I hold different views. I have given them in my memorandum.

MR. CHAIRMAN: You said something about the negotiated contracts and the American system. Do we take that the system of contracts there is the same as we have here?

SHRI PADHI: They do not use the word 'tenders', they use the word 'bid'. But the system is the same. They also have very large contracts, specially the NASA contracts which run into billions of dollars. Many of these are negotiated contracts.

MR. CHAIRMAN: Has it anything to do with the cost?

SHRI PADHI: They have got cost contracts also where it is cost plus 20 or 30 per cent. In those cases, the Auditor-General naturally comes in a very real way because he has to make an audit of the cost to the contractor to see whether he is overcharging, where the contractor has a monopoly of technology or material, the contracts have got to be negotiated once. Naturally Government is anxious

that the contractor should not take advantage of his position as the monopolist. Also in regard to contracts with oil companies, I am told they have recovered large sums as a result of the CAG's activities. The other day I was reading a newspaper where it was reported that as a result of the Auditor General's activities in regard to some contracts with a chemical combine, they were asked to refund millions of dollars. In England also they passed special legislation in recent times in regard to some special contracts as a result of which they recovered some large sums of money. The CAG's office would be able to give you specific instances in regard to this matter concerning foreign countries.

LEGISLATIVE COUNSEL: As regards negotiated contracts, first of all unless you audit the accounts of the contractor, you cannot arrive at the result. For this purpose, you have to audit the accounts of the sub-contractor too. As there is no contract between Government and the sub-contractor, how do we have access to the accounts of the sub-contractor?

SHRI PADHI: Through the Government contractor. It must be made part of the law itself.

LEGISLATIVE COUNSEL: Will it not be regarded as an unreasonable restriction on the sub-contractor's right to carry on business?

SHRI PADHI: One would have hesitated to make this suggestion had it not been for the respectable US precedent. We should take courage and legislate accordingly.

LEGISLATIVE COUNSEL: But the provision there, Public Law 245 of 1951, does not say how it is actually possible. That law says:

"All contracts negotiated without advertising pursuant to the authority contained in this . . . shall include a clause to the effect that the Comptroller General of the US or

any of his duly authorised representatives shall until the expiration of three years after final payment have access and the right to examine any directly pertinent documents, books papers . . . of the contractors or of any sub-contractors engaged...."

But this does not say how the money is recovered.

What is your suggestion?

SHRI PADHI: As a result of the Auditor-General's scrutiny of the con-

tractors' and sub-contractors' books, if he reaches certain conclusions, those conclusions must again be looked into by Government and necessary action taken to have overpayments, if any, recovered. The law should provide for it.

LEGISLATIVE COUNSEL: That is all I wanted to ask.

MR. CHAIRMAN: Thank you, Mr. Padhi.

(The witness then withdrew.)

(The committee then adjourned)

MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1960

Monday, the 16th February, 1970 at 10.00 hours and again at 15.00 hours

PRESENT

Shri S. M. Joshi—*Chairman*

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Nageshwar Dwivedi
5. Shri S. Kandappan
6. Shri S. S. Kothari
7. Shri Dhuleshwar Meena
8. Shri Anand Narain Mulla
9. Shri P. K. Vasudevan Nair
10. Chaudhuri Randhir Singh
11. Shri S. M. Siddayya
12. Shri Sant Bux Singh
13. Shri R. Umanath
14. Shri Nagendra Prasad Yadav
15. Shri Prakashchand B. Sethi.

Rajya Sabha

16. Shri M. Anandam
17. Shri Gurumukh Singh Musafir
18. Pandit Bhawaniprasad Tiwary
19. Shri C. D. Pande
20. Shri Sundar Mani Patel

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. Shri A. .P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)

1. Dr. I. G. Patel, *Special Secretary.*
2. Shri A. R. Shirali, *Joint Secretary (Budget).*
3. Shri B. Maithreyan, *Officer on Special Duty (Budget).*
4. Shri K. N. Singh, *Director.*

SECRETARIAT

Shri M. C. Chawla—*Deputy Secretary.*

WITNESSES EXAMINED

I. Indian Audit and Accounts Services Association, New Delhi.

Spokesmen:

- (i) Shri T. Rengachari, Vice President.
- (ii) Shri K. Lalit, Member, Executive Committee.
- (iii) Shri A. J. Tauro, Member, Executive Committee.

II. All India non-Gazetted Audit and Accounts Association, New Delhi.

Spokesmen:

- (i) Shri A. V. Venkataraman, *Secretary General.*
- (ii) Shri S. K. Vyas, Additional Secretary General.

III. (i) Shri S. Ranganathan, Comptroller and Auditor General of India, New Delhi.

(ii) Shri A. K. Mukherji, Deputy Comptroller and Auditor General of India, New Delhi.

I. Indian Audit and Accounts Services Association, New Delhi.

Spokesmen:

- (i) Shri T. Rengachari, Vice President.
- (ii) Shri K. Lalit, Member, Executive Committee.
- (iii) Shri A. J. Tauro, Member, Executive Committee.

(The witnesses were called in and they took their seats).

SHRI M. C. CHAWLA, DEPUTY SECRETARY: The Chairman, Shri Joshi, had to leave suddenly for Patna. He suggested that the Committee might elect an hon. Member to act as Chairman for the sitting under Rule 258(3) of the Rules of Procedure. The Chairman said that he would be back today after lunch and he would be able to attend the afternoon sitting.

The Chairman also suggested that the programme for to-day's sitting might be reversed. Afternoon witnesses might be put on today morning and Shri Ranganathan is heard to-day afternoon.

Now the Committee may elect on Hon'ble Member to act as a Chairman for the sitting and we can proceed with the work.

SHRI UMANATH: If you put the witnesses of the afternoon in the forenoon, some difficulty will be there for persons like me as I shall be preparing points for them in the lunch time.

SHRI CHAWLA: You can hear the employees and so far as eliciting of information is concerned, we can do it on some other date.

SHRI UMANATH: Yes, we can do that.

(Shri Vasudevan Nair in the Chair).

MR. CHAIRMAN: Under the Rules of Procedure where witnesses appear before a Committee to give evidence the Chairman shall make it clear to the witnesses that their evidence shall be treated as public and is liable to be published unless they specifically decide that all or any part of the evidence is to be treated as confidential. It shall, however, be explained to the witnesses, even though they might desire it to be treated as confidential, the same may be made available to the Members of Parliament.

You would like to explain your points of view in the beginning.

SHRI T. RENGACHARI: At the outset I would like to thank the Committee on behalf of myself and the Association as we have been given an opportunity to explain certain view points on the Bill under consideration.

As you might have seen from the Memorandum, Sir, that we had submitted the first point regarding prescribing of the qualifications of the C.A.G. of India, which as you know is a very important post in our administrative set up.

When the Draft Constitution was under discussion, the question whether any particular qualification should be prescribed for this important post was raised. The general reading of the discussion would give the impression that the whole discussion concentrated on the fact whether a particular professional qualification like the qualification of chartered accountancy for this post was necessary and in that context the general view seemed to have prevailed that no such qualification need be fixed, and it was explained that for this post an officer with broad administrative experience of Government and other diverse functions would be required.

When once it is accepted that no qualification like chartered accountancy

or like that is necessary, it is needless to prescribe any qualification like experience in a particular field. The main reason that seems to have governed against the provision of particular professional qualifications has been that this important post should not be made a political post which is desirable in the context of the administration of the country. After all, the Government will always be by one party or the other, and if this post is made a political post, then certain consequences follow and this, perhaps, will be conceded to be not very desirable. And, therefore, in the opinion of our Association, it follows that for this post, a civil servant will have to be considered to the exclusion of anybody from outside. If this particular point is conceded, then the question arises as to what particular qualification should be needed for a civil servant to occupy this post. One view expressed all through had been experience in diverse fields—means experience in Secretariat only, and for an officer to become an Auditor General, he should necessarily be a Secretary to the Government. Whether this is a very necessary qualification is for the Committee to consider. In our opinion, it will be desirable if an officer with very wide field of experience can be selected. But for any field of activity, experience in that particular field of activity should be the primary consideration. In that view, we feel that an officer with adequate experience of Government accounting and auditing should be considered. And if that particular officer has other qualifications, they should certainly form the additional attributes; but it should not be necessary to be the only qualification that is desirable for this particular post. In the case of Judiciary, we have prescribed that the person selected should be a citizen of India and should have certain standing at the Bar or an eminent jurist and all that. In this particular field of audit activity, it involves a particular attitude of mind—not only critical but

an independent attitude towards the executive. Then only, we feel, a particular officer will be in a position to be attuned to discharge the functions laid down in the Constitution. And for this, experience in auditing and accounting should be the prime qualification. If we can find officers with additional qualifications of similar length of service and certain similar qualifications they should also be considered, though from a pure service point of view, one can even urge that the service in the Indian Audit & Accounts fulfills the qualification. We, as a Service Association, would not like to say that only service in the particular service should be the criterion. We would like to stress the view point that the experience in Government auditing which involves not only auditing of Government Departments but also of various Corporations and autonomous bodies should be a necessary qualification for this post. Whether such a qualification exists anywhere in the world or not, whether we have prescribed it so far or not is beside the point because we have to consider now whether such qualification is desirable by itself.

Sir, I would like to pass on to the second point which touches on the status of the Auditor General and his organisation. In the Constitution, we have very wisely provided that the Comptroller & Auditor General of India who comes in contact with Government administration almost at all points has to discharge his duties without fear or favour, affection or ill-will, and bring to the notice of Parliament what in his opinion is worthy of being brought to notice. To have this function performed, he should have an adequate status. We have to consider whether he has been given that status in practice. The Constitutional provision which more or less brings out what his status is intended to be is the one relating to the clause which says that he can be

removed only on like grounds and in like manner as a Supreme Court Judge, there the matter ends. When the draft Constitution was discussed, one of the chief architects of the Constitution—Dr. Ambedkar actually said that this post, in certain respects, will be more important than the judiciary in the sense that the Auditor General comes into contact with the Government transactions in all fields, and he is one officer who is to have a perspective view of the whole length of Government activities. But what we have done in practice so far is quite contrary. He has not been given an adequate status. What we find is that, though he is supposed to be equated to the Supreme Court Judge, he has been made less than a Cabinet Secretary in the Warrant of Precedence. This is one of the aspects. Now in the present Bill, all the Provisions regarding his conditions of service seem to indicate a down-grading of the status of this post. We are not able to follow why the pension admissible to the officer should be limited to what is admissible to an ICS officer of 21 years of service. Any ICS officer with 21 years of service will be entitled to £1,000/- which in terms of Indian currency, at a particular rate of exchange comes of Rs. 13,333.33 Ps. and we are providing it in the Bill. And the Association feels that it is not correct. Taking even an ICS officer with 21 years standing, perhaps, Mr. Ranganathan would have earned that in 1954: for his service as Comptroller & Auditor General, he gets almost nothing. In our view point, in such a matter, this post should not be equated to any service or to any particular executive officer. In all respects, it should be equated to that of a Supreme Court Judge. Whatever maximum you would give for an officer of this length service—minimum is likely to be 25 years service and maximum can be more than 30 years for such an officer who acts as an Auditor General—he should not be given anything less than that would be admissible to the Supreme Court Judge

of certain standing. Of course, the details can be worked out.

SHRI M. ANANDAM: Suppose he has put in 25 years service elsewhere and then becomes Comptroller & Auditor General.

SHRI RENGACHARI: What I would say is that the total pension admissible for his service plus the pension as Auditor General should be equal to the maximum admissible to a Supreme Court Judge. Again, in the Bill, we are trying to say that the salary of the Auditor General will be Rs. 4,000/- p.m. It is already in the air that it is likely that the salaries of Supreme Court Judges may be raised. It is not clear why we should fix the salary of Comptroller & Auditor General at a particular quantum. Why not we say that the salary of Auditor General should be what a Supreme Court Judge gets? What I would like to indicate is that in such matters the position should be secure in all respects. And then only can we reasonably expect the particular incumbent of a particular post to discharge his functions with dignity. It will be in the fitness of the things for this august body to consider whether he should not be given the proper position that is due to him under the Constitution. Allied to this question, though not directly related to it, are the disabilities under which the Audit Department is made to function. The Comptroller & Auditor General can only function through his Department. The Department, naturally, should also be given a particular position, so that it may discharge its duties in the interest of the Parliament and in the interest of the country at large. During the last 20 years or so, every service has increased in position and status. Now let us take the Indian Audit & Accounts Department. There is one Deputy Comptroller & Auditor General. In the olden days you all know the relationship between the Government and the Auditor General was governed by concordat. I do not

know the exact terms of the Concordat except that the Concordat mentioned that certain things could be mentioned in the Audit Report and certain things need not be mentioned in the Audit Report. At that time when the Concordat was in force such a convention existed and it was the first Indian Comptroller and Auditor General, Shri Nara Hari Rao, who pointed out that this Concordat was no longer in force. At that time the British Government never wanted the Auditor General to function in the way our Constitution wants his to function. The field of the Auditor General really extends to a very wide extent and our intention is perhaps that. And if this be the position it will be proper to equalise the Dy. CAG to the the Secretary to the Government of India. If the Auditor General is expected to be much above the Secretary—in my opinion it should be above any highest executive officer—the Dy. CAG should not be less than Secretary. Similarly, the next grade. What we find is that in the old days an Additional Dy. Auditor General was class I [A.G. with a special pay. In those days the Class I Accountant General was paid Rs. 3,000/- as salary which was paid to the Joint Secretary to the Government but later when the Joint Secretaries were brought down to Rs. 2,250/- this post got downgraded but when the Joint Secretaries scale was raised the salary of the A.G. or the Add. Auditor General remained same. Now, it seems we are trying to consider whether they can be given Joint Secretary's pay.

Similarly, in the case of A.G. What has happened is that he is the chief Audit Officer in a State and a representative of the Auditor General in the PAC. Most of you know the functions of the Accountant General vis-a-vis the PAC and I think it will be admitted that the correct position will be to give him an adequate status in the State set-up and it will not be unreasonable to equate him to the Chief Secretary. But what

happens today is that he is given a position of Rs. 1800—2250 whereas Special Secretary to Government is in the scale of Rs. 2500—2750 and the Chief Secretary is much above I stress this point not only from the point of view of quantum of money but also because it is the Audit Organisation which has to sit in judgement on the transactions of Government and bring its finding, to the notice of the legislatures.

Now, I will take the subordinate grades also. We have the Audit Assistant who is paid at a rate equal to an Upper Division Clerk but his work—it will be admitted—can be compared to that of an Assistant in the Secretariat. Our Section Officers who supervise the work of eight people—they have to pass a very stiff examination—get a pay scale much less than the scale attached to Secretariat Section Officers. Our Accounts Officers, I think, should be equated to Under Secretaries. At present they are given the scale of Rs. 590—900 whereas an Under Secretary is given the scale of Rs. 800—1300. This discrimination runs all through and it is with this disability that the Auditor General has to contend. Naturally, the staff he will get will be less in capacity and if you give a proper scale of pay to them you can expect better results also from that organisation which is, again I have to stress, the chief aid to the State legislatures.

In this context I will explain another handicap—it is about budgetary independence. Whatever the CAG wants has to be put to the Finance Ministry and it is open to the Finance Ministry to turn down or approve. He will have to convince them and has to go to the Finance Ministry off and on. True, in the days of Mr. Nara Hari Rao a convention was developed that the C.A.G.'s proposals

may not be finally turned down except at the level of the Finance Minister. Whether this thing has worked well in practice only the Auditor Generals who have held this position can tell you. My point is whether it is desirable in its innate nature to place the Auditor General who is expected to be the chief critic to the Government to go to the Finance Ministry which also is subject to the criticism of Auditor General. There should be some check on the estimates of Auditor General but for that I would think a Parliamentary Committee can sit and approve his budget. The point to be stressed is his independence from the executive Government in all matters should be respected and if necessary we can even put a ceiling on his requirements on percentage basis of the total volume of transactions, of expenditure and revenue that is liable to audit.

Another point is that under clause 10 of the proposed Bill—there are two provisos—under which the jurisdiction of the CAG in matters of maintaining and keeping accounts—this itself is not a correct term—can be taken away by a mere executive order in consultation with him. This consultation may mean nothing. I do not think it will be in the interest of the country to provide that certain functions of the Auditor General can be taken away by executive direction even with the concurrence of the Auditor General. My own impression and it is the view of the Association also is that any abridgment of his functions should be done only by reference to Parliament. It is not correct to say that in the Indian set up the Auditor-General is keeping the accounts and he is also auditing them and, therefore, it is anomalous that the same person should do both auditing and accounting. Here, initially all the transactions take place at the hands of the executive officials. Merely compilation of the accounts is done

by the Auditor-General and it does not amount to the Auditor-General's participating in the accounting. This being the position, it is not correct to say that audit and accounts are combined in one organization. It was in 1923 in the UP that they attempted certain separation in functions. Then it was given up as unsatisfactory and uneconomical. Later recently certain experiments were tried and we do not know how far they have succeeded. What all we would like to express is that we should not transfer accounts without reference to Parliament to any executive agency because it will amount to the curtailment of the functions of the Comptroller & Auditor-General of India.

With these few words I would like to conclude. I am thankful to you for the opportunity you have given me and Mr. Lalit will explain certain other features.

SHRI K. LALIT: Mr. Rengachari has dealt with mainly the qualifications of the Auditor-General. I would like to say a few words about his duties and powers.

As you are aware, the Auditor-General is responsible for the audit of all public expenditure. During the course of the last two decades some of the functions which were being performed by Government Departments in the past have now been transferred either to autonomous bodies or to Governments companies or corporations or sometimes even non-official bodies. Money is given to these corporations, companies or autonomous bodies through loans, grants subsidies or cesses. The basic point I would like to urge is that where large funds are given by Government in whatever form to whatever body, that body should be subject to discretionary audit by the Auditor-General. It is only in this way that the tax-payers' money can be safeguarded.

Another point which, of course, Mr. Rengachari has also dealt with is that the various provisos to the clauses of

the Bill as drafted give the right to the executive of the day to abridge the functions of the Auditor-General. The view point of the association is that all these provisos should be removed and unless otherwise provided by Parliament or by Government coming to Parliament and taking their concurrence, the Auditor-General's functions and duties should not be abridge. I would like to go a little into the detail of some of the clauses of the Bill relating to the duties and powers of the Auditor-General.

Clause 13, as drafted, would give the impression as if the Auditor-General is responsible only for what is called appropriation or regulatory audit. Even under the Audit and Accounts Order 1936 which at present deals with the functions of the Comptroller & Auditor-General, the C & A G is in fact performing performance-cum-efficiency audit. We feel that the clause should be amplified to provide that the Auditor-General should have the right to ensure that the expenditure has been incurred with wisdom, faithfulness and economy. I don't think that it is the intention of the framers of the Bill that the scope of the audit which is fairly wide at present should be restricted in any way. But the Association feels that the matter should be made free from doubt by adding these words to the clause of the Bill itself.

Clause 14 provides that the Auditor-General would have the right to audit such autonomous bodies which are entirely financed by loans and grants. We would urge that the word 'entirely' should be changed to 'either entirely or substantially'. There are cases where these bodies may have certain income of a miscellaneous nature. They may be getting some grants say from the Ford Foundation. Or they might have even constructed some buildings from earlier loans from the Government and might be getting rents. Simply because they have certain miscellaneous income, these bodies should not be

kept outside the purview of the Auditor-General.

We would also suggest that certain bodies which are being financed by cesses like the Indian Rubber Board, Coffee Board, etc. should also be brought within the purview of the Auditor-General. At present that is being done on a consent basis. Now the matter should be made free from all doubt.

Similarly, Government is giving large amounts of subsidies and even in the current year's budget it is in the neighbourhood of Rs. 73.91 crores. Subsidies are nothing but grants-in-aid. But there is no provision in the Bill as drafted at present, to provide for audit of bodies which may be getting subsidies. Central subsidies are subject to certain duties and conditions to be performed by the recipients and the Auditor-General should have the right to go and look into the recipient's books to see that these conditions have been fulfilled. In the Bill as drafted there is no uniformity in the matter of presentation of reports. In certain cases the Act itself provides that the reports should be presented to Parliament after audit and in certain cases the report is being given to Parliament as a matter of convention and in certain cases like the Vishwa Bharati Delhi University or the Jawaharlal Nehru University the reports are only being given to the Visitor. We feel that in all these matters the Auditor-General should have the right to present his report to Parliament or to the legislature concerned.

On the matter of Government companies we have a couple of points to urge. As you are aware, certain Government companies in turn form other companies. Now under the Companies Act such companies are not considered Government companies. Take the ONGC. It is a Government cor-

poration. It has formed a company called Hydrocarbon. Similarly certain Govt. companies have banded together and formed a consortium of power projects or a consortium of industrial projects. We feel that the definition should be clarified in the Bill itself to provide that where such a company is formed 51 per cent of whose shares are held either by Government or by a Government company or by a State Government, that should be called a Government company and be subjected to test check by the Auditor-General.

In the matter of presentation of reports on Government companies also I understand that at present there is no statutory obligation that the Auditor-General should present what is called the report on commercial audit. Now it should be provided in the Bill itself that in such cases the Auditor-General would have the right to bring the results of his audit to the notice of the Parliament or the legislature concerned. In this connection we would also urge that the Auditor-General should be given the right to give directions to the company auditors as to the manner in which their functions should be performed.

As regards corporations at present there is no uniformity. We would urge that as in the case of Govt. Companies or Govt. Corporations also as in our opinion there is no difference between the Government companies and Government corporations, the Auditor-General should be given the right of audit.

Another matter we would like to raise is regarding contracts which are given on the basis of negotiations and not as a result of open competitive tendering and we would urge and I understand it has already been urged by the Administrative Reforms Commission, that where large contracts of the value of not less than Rs. 1 crore are given, the Auditor-General should have the limited right of looking into the books, at his discretion, of the contractors or sub-contra-

ctors relating to that contract only. We are not suggesting that he should have the right to look into all the books of that contractor. We are only urging that he should have the right to look into the books which relate to this particular contract.

Certain Ministers are collecting funds. Take, for example, the National Defence Fund or the Prime Ministers relief fund. These funds are raised by the Ministers in their official capacity and by and large by utilising the official machinery. We urge that these funds should be placed in the public account and be subjected to audit by the CAG.

SHRI M. ANANDAM: The first point you raised was about the qualifications of the CAG and you said that he must be a person having experience of accounts and audit. Do you think that mere experience in governmental audit and account would be enough especially when the audit of the public sector undertakings is also done? In recent years even accountancy has become a very specialised and technical subject and there is a specialised branch called management accountancy. There is efficiency audit instead of regularity audit.

SHRI RENGACHARI: If a person is experienced in one or two departments of the Government, he cannot be said to have detailed knowledge of the Government departments. Then it is true that it will not be practicable to have one single officer who can have the experience of all the departments. That applies to government undertaking also. A person to be appointed as CAG should have knowledge of the Government functioning; this includes both those aspects. In the organisation itself there should be sufficient expertise and if it is not there, it is for us to consider how that particular department should be strengthened. While discussing the attributes of the

CAG, the idea is that he should have a complete perspective of the functioning of the Government as a whole and that is desirable to have an attitude of mind which will be independent of the executive Government.

SHRI K. LALIT: When we mentioned Government audit and accounting, it does not mean that it is necessarily limited to what we understand by this term generally. At present the CAG's organisation is conducting audit of the public sector undertakings and to that extent that experience can be considered. Besides when we take in probationers, we teach them the fundamentals—such as book-keeping, etc., and management accountancy also and even attach them to public sector undertakings, and firms of chartered accountants so that they can build up the necessary expertise for this. That would meet your point to a large extent.

SHRI M. ANANDAM: Persons in the IA & AS have experience of Government accounting and audit. There are other persons, business executives, chartered accountants, etc. Why should you shut them down from being appointed as CAG?

SHRI RENGACHARI: As I already submitted, we should not think of politicalising the appointment. If anybody other than a civil servant is to be brought in as CAG of India it will have the direct consequence of politicalising the appointment itself. It is not desirable in the context of the present conditions in the country. That is why I suggested that the post of the CAG should ultimately go to a civil servant. If it is to go a civil servant, what attributes would you like him to have? That is the point to be considered. I have pointed out certain conditions. I also concede your point that the organisation should be developed by having a recruitment policy which will provide for induction at various levels of people with commercial qualifications. A

time may come when you may require graduates or post-graduates with higher physics and higher chemistry as we go into various fields. We can provide for these things by indicting various kinds of people. If you want a specific qualification, you may frame the recruitment rules accordingly. But as far as the CAG is concerned, he should have to be only a civil servant, and that civil servant, we maintain, should have adequate experience of Govt. accounts and audit, because the present view seems to be that as long as he has experience in other fields it is good but that in the basic field he need not have any qualification. That is the present position. We would like to say that the basic requirement should be recognised, but if he has additional attributes, it is well and good. That is the attitude that we would like to take and I think it is not a very unreasonable attitude.

SHRI M. ANANDAM: I do not agree. While experience in other fields is good, apart from experience in finance and accounts, the Governor of the Reserve Bank, for instance, should not be shut out from becoming a CAG.

SHRI RENGACHARI: All I say is that he should be a civil servant.

SHRI M. ANANDAM: One need not be a civil servant for being the Governor.

SHRI RENGACHARI: Then the one selected should be committed to the policy of the Government.

SHRI C. D. PANDE: He should be committed to the democratic form of Government and the Constitution of India and to the mixed economy: not a commitment of the modern type.

SHRI M. ANANDAM: I come to the second aspect which you have raised in your memorandum. You have stated that the status of the CAG should be raised to above that of the Cabinet Secretary, so that he may

have complete authority and the power to audit the accounts of the Government without any impediment. I am afraid that the position of the Comptroller and Auditor-General has been misunderstood by all those who have given evidence so far. The CAG is an authority created under the Constitution. He is not a subordinate to anybody. The only subordination that I can understand from you and the other witnesses so far is that he has to go to the Finance Ministry for two purposes: one is that whenever he wanted adequate staff sanctioned, and the other is that his salary has not been as much as that of a Secretary or the Cabinet Secretary.

SHRI RENGACHARI: Now, their salaries are the same.

SHRI M. ANANDAM: So far as the first aspect is concerned, my feeling is that if you find that the Finance Ministry has not been responding to your requirement of the staff, you may ask for a small Parliamentary Committee to go into the matter and decide about it. But I do not think that he has been subordinate to the Finance Ministry merely because it is the Finance Ministry. If you think that the Finance Ministry has been exercising undue influence over him, he can very well recommend that a small Parliamentary Committee should go into the matter and wherever there is a dispute between the CAG and the Finance Ministry, it may be decided by a small Parliamentary authority, and I think that would correct the position.

SHRI RENGACHARI: What you say is that if there is some sort of quarrel between the Finance Ministry and the Auditor-General, let the CAG go to some sort of arbitration by a small Parliamentary Committee, on every occasion or after a series of occasions when such a dispute arises. But please consider the position of the CAG. He will be like a child complaining against something or the other. Under the Constitution of

India, the CAG is not only the Auditor-General of the Union but also of all the States of the Union of India. Though he is in that position, the CAG naturally for all practical purposes is an officer of the legislature or Parliament. Do you think that—let me not be misunderstood—such a position adds to the dignity of the House itself if the chief officer in aid of Parliament should be made to go to the Finance Ministry on a number of occasions and then get rebuffed—he need not be rebuffed every time—and then go for arbitration before a Committee of Parliament? I would think that you should provide for the independence of this office in such a way that he need not go there at all. The Auditor-General should also have a scrutiny of his requirements, but let it be done by a Committee of the Legislature i.e. Parliament, and then let a convention develop by which his estimates should be automatically included. Let us not go by the number of occasions on which there has been a difference. Perhaps no Auditor-General, past or present, would like to detail all such occasions. That does not add to the dignity of the post.

SHRI M. ANANDAM: In a democracy like ours, we cannot attribute any plenipotentiary powers to any one single individual.

SHRI RENGACHARI: We do not claim that.

SHRI M. ANANDAM: We want that everybody must be under the control of some democratic institution.

SHRI RENGACHARI: The CAG should be under the control of a body of the legislature for all his requirements so that his estimates can be approved. What I suggest is that he should not go to the executive government every time for his requirements and he should not be left in a position to get a rebuff. On a point of principle that is not correct.

SHRI M. ANANDAM: The Parliamentary Committee cannot be burdened with all these routine matters. We should not also think that the Finance Ministry will always fight and see that it is not sanctioned. It does not arise every day.

SHRI RENGACHARI: Whether a particular situation has arisen and on how many occasions it has arisen and how many occasions were there when they differed and so on, is a matter on which only the Auditor-Generals, past or present, can give any authentic information. I am arguing from the point of view of a principle, and which alone I can do from the information at my disposal.

SHRI PRAKASHCHAND B. SETHI: Even the Supreme Court has to function within the budgetary provision. Within the budget allotment provided to it, it can appoint and create posts; though being completely independent of the executive, it has to work within the framework of the budget. Similarly, the Auditor-General has to work within the framework of the budget allocations that are made. It is not that for every post he has to go to the Finance Ministry to get sanction. If the Finance Ministry which is responsible for the entire budget is completely deprived of its powers, and if the Auditor-General says he can have any number of posts today and if tomorrow the Supreme Court says something like that, then the budget provisions would have no meaning whatsoever.

SHRI A. J. TAURO: There is a big difference between the Supreme Court and the Audit Department. The Supreme Court consists of Justices and a certain amount of residuary staff like stenographers and so on; whereas the Audit Department now consists of about 70,000 persons. This vast department, has to perform a number of functions which can be greatly restricted in scope by the number of persons, their qualifica-

tions and their competence. If the Supreme Court is denied staff, I should imagine that the disposal of business would be handicapped, and that is a factor which would come immediately to notice. If, on the other hand, the Audit Department is handicapped by insufficient staff, the results are not equally demonstrable and not equally apparent. I presume that the Supreme Court has not so far felt any serious difficulty in getting the staff it requires. But the Audit Department has in the last 20 years, and it is therefore that we have come to this Committee to consider in what manner it can be secured that the department is not handicapped by this particular budgetary and financial situation.

SHRI PRAKASHCHAND B. SETHI: Does the very fact that at one time the provision for the Auditor General was Rs. 5 crores and now it is about Rs. 25 crores indicate that they have been denied of staff from time to time?

SHRI RENGACHARI: The budget of the Government of India was perhaps Rs. 100 crores formerly. It is now perhaps Rs. 3,000 crores, and if you take all the diverse activities of the Government of India and the States the total aggregate will be of the order of Rs. 10,000 crores. The point is that the increase is there, but there has not been any increase compared to that in the activities of the Government of India in proportion to their budget. Our point of view is, there has been increase in the staff in all the departments in general. For instance, take the P & T Board. What was the number of officers and the total number of staff in 1950, and what is it now? You can compare it yourself with the position in the Auditor General's organisation. How the Auditor General's organisation should be scrutinised can be examined, but it should not, in principle, be made to go to the executive.

SHRI K. LALIT: When governmental activities go up, audit also

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has to expand necessary. While making budget provisions, Government should bear in mind that they have to provide adequate resources to the audit department also. Otherwise, if some executive government does not like audit, it may deprive the audit department of funds.

SHRI M. ANANDAM: So far as separation of accounts from audit is concerned, in the case of government departments and governmental activity, these dual functions do not conflict with each other. But there are a large number of public sector undertakings where officers of the CAG's department have been sent on deputation. When the audit of the accounts of that undertaking is conducted by officers from the CAG's office who are subordinate to the person who is working on deputation in the undertaking, it is not possible for the subordinate officers to report independently about the financial condition of the undertaking. There are certain mental observations, because they feel their future promotion is dependent on the senior officer who may return to the CAG's office after the deputation period of is over. Therefore I suggest that none from the CAG's office should be deputed to any of the undertakings. Or, if at all anybody is sent, within two or three years, he should exercise his option whether he would continue to work in the undertaking permanently or would like to come back to the CAG's office. I am mentioning this because I understand that in the case of audit of HSL's accounts, the audit is inadequate and improper.

My next question is, should not the CAG's office have an audit division completely independent of the accounts work? If there is a parallel audit division, to some extent the difficulty I have pointed out may be eradicated.

SHRI RENGACHARI: Regarding your doubt that officers from the

CAG's office may not point out the lapses in an undertaking where a senior officer from the CAG's office is working on deputation, I agree that this extreme view can be taken, but it should be rather the exception than the rule. The tradition in the audit department is that the officers are trained to look into the accounts properly and make an independent report. After all, they are also human beings and there are certain possibilities, but you cannot argue only on that basis. We would expect our junior officers who go out to bring to our notice any defect, so that we may rectify it. You are referring to a possible human weakness. I do not think that covers everything.

About your other suggestion, Government have already taken a decision to circularise all, public undertakings that people at a particular level will have to make up their mind either to stick to the undertaking or go back to their parent departments.

Regarding the parallel organisation you suggested, they have formed an audit board. We have got a separate commercial audit wing where the emphasis is always towards commercial practices.

I would submit that it should be the concern of Parliament and every citizen to see how the Auditor General's organisation can be developed from time to time to meet the needs of the situation, because this is the only organisation authorised to be the chief aid of Parliament.

SHRI K. LALIT: You mentioned HSL. In HSL we never had a member of the audit service as Finance Director.

SHRI M. ANANDAM: I was saying it subject to correction. May be it is some other undertaking.

SHRI UMANATH: You say that all the public corporations and public undertakings should be under the purview of the CAG. But the Gov-

ernment would say that the existing practice is sufficient, because the CAG has got the power to submit a panel and from that panel only the auditors of these undertakings are appointed. How do you meet that point?

SHRI K. LALIT: The system of panel does not apply to all corporations. In the case of LIC, there is no such provision. Only in the case of the Food Corporation there is such a provision but even there the CAG has no right to order a supplementary or test audit of the corporation itself.

SHRI RENGACHARI: The general principle is, wherever Government money or public money is involved in any form, Auditor General who is the only authorised aid of Parliament and the legislatures should be brought into the picture.

SHRI UMANATH: Is it a fact that those who work on deputation in any corporation are under the discipline of the corporation itself?

SHRI RENGACHARI: Yes.

SHRI UMANATH: Regarding the question of the Finance Ministry *vis-a-vis* the CAG, I feel it is not practicable for every minor difference to be referred to a parliamentary committee, but the question of budget approval can be made subject to the scrutiny of a parliamentary committee. What is your view?

SHRI RENGACHARI: That is what we want. When once the budget is approved, within that, the Auditor General can incur all the expenditure.

SHRI UMANATH: Shall I put it this way? Your department must be treated as a specialised, technical independent department whose status, service conditions, etc. should be decided by a parliamentary committee?

SHRI RENGACHARI: I entirely agree. Of all the All India Services, this is one service which is really rotated all through the country. I have served in 7 or 8 States and had 14 transfers in the course of my service in 24 years. We are the real All India Service and Parliament should decide the conditions of service.

SHRI UMANATH: About separation of audit and accounts, I think several experiments in that direction have failed. Could you tell us how it has failed, including piecemeal separation?

SHRI RENGACHARI: The earliest experiment was in 1923 when some sort of separation was attempted in the then United Provinces. It was proving uneconomical and it failed. Later on, in the fifties, the theory was pushed to a fairly high pitch and certain separations were effected in West Bengal and Saurashtra. But they also failed. Ultimately, when you come to thing of it, any accounting of this nature involves a certain amount of precheck which you may call pre-audit or by any other name. Whether you audit post facto or pre facto, an element of check has to be exercised. When you separate audit and accounts, there is bound to be increase in expenditure. It may happen that a particular organisation dealing with a certain volume of transactions expands the scope of its activities or there may be other considerations for splitting up the organisation. In any case, the accounting department is bound to have some extra expenditure. That is why we say we should not put an all-time embargo; it should be within the competence of Parliament and not of the executive Government. For various reasons, transfers are made. So far as piecemeal transfers are concerned, nowadays the staff do not like to go all places, with the result sometimes it so happens that the staff may remain in one organisation and the work may go to the other organisation. At least temporarily there will be some surpluses, which is inevitable.

SHRI UMANATH: How is the latest separation in the Telecommunications Department working?

SHRI RENGACHARI: For finding out its effectiveness, you will have to wait for 4 or 5 years before we can pronounce upon it, because it is in the process of being effected. The past experience is not much. We have handed it over only in 1968 and it is still in the process of separation but I know the impact of the separation on myself—I happen to be the Accountant General, Posts and Telegraphs—and that is why I am placing before you that any separation that is done should be for validity considered reasons with the approval of Parliament. Even if you do it in consultation with the Auditor-General, consultation does not mean concurrence. If you provide for concurrence, then also there are certain difficulties. Unless you provide for a parliamentary board or committee for this, it is likely that your chief agent is likely to be abridged in his functions.

SHRI S. KANDAPPAN: I broadly agree with many of the points submitted by you and your colleague. Apart from what Shri Umanath has asked, I would like to know one or two things. You have rightly said that there should be some parliamentary committee which should see to the working of the CAG and control it in spite of the Finance Ministry having its grip over it. But there is already a high-power committee elected by Parliament; I refer to the Public Accounts Committee. Can that do the job that you have in mind?

SHRI RENGACHARI: Any parliamentary committee, when it is given a particular function, can do but the Public Accounts Committee is for examination of the accounts of Government departments and the report of the Auditor-General thereon.

SHRI S. KANDAPPAN: The Committee has come in more contact with

your Department than other committees and by virtue of that they are more in the know of things.

SHRI RENGACHARI: We are interested in a parliamentary committee. If you think that a particular committee could be entrusted with this task, it is for you to decide.

SHRI S. KANDAPPAN: You have made certain points about the submission of reports. What is the position now? Are they promptly submitted? Are all the reports submitted?

SHRI RENGACHARI: There is some confused idea about the submission of reports as such. Very often questions are raised regarding certain things that happened long ago being brought in the reports very late when perhaps nobody could do anything about it. There are two aspects of it. As far as the Central Government as well as most of the State Governments are concerned, submission of the Audit Report is in time. But in certain States situations arose where even though the report was submitted to the Government to be laid before the Legislature in terms of the existing provisions in the Constitution, their submission was delayed. There is another aspect. The replies from the executive government to various points raised by Audit are not received by the Audit authorities. When a point is raised at a particular level, it takes time for it to travel to the level of the Accountant General and the Auditor-General and to get the reply of the executive government which in turn will have to get the information from various subordinate organisations. There is also another difficulty. Our audit is test audit; it is not as if every transaction can be covered every time. Whatever comes in this year's audit is brought out in the report. It so happens that a point raised during the course of a particular audit, when you probe further it goes into the past. Then we are in a rather embarrassing situation in that we cannot omit it because the point may be important and the loss may be significant but,

at the same time, if we bring it to notice we make be criticised on the ground that what is brought out is a old thing. But such cases now are becoming more and more rare. However, I do not think that they should be excluded because for such cases to be brought in time the audit has to be cent per cent which is a very costly affairs. Therefore, it is inherent in the scheme of things that certain things that happened in the distant past may have to be brought to notice. If it is important, the Auditor-General should have discretion to bring it to notice even though it is old and you cannot take action against the person concerned because it may disclose certain weakness in the system which we have to provide for in future.

SHRI M. ANANDAM: By insisting on the audit of accounts of contractors where the contract is finalised on the basis of negotiations, I have a feeling that we are trying to intrude into the affairs of private contractors. We have got two types of contractors, efficient and inefficient. If an inefficient contractor comes forward and says that he has incurred a loss, the CAG might audit the accounts and if he feels that he has incurred a loss, the contractor should be adequately compensated. Should the CAG recommend higher payment? When a negotiated contract ends up in huge profit for the contractor, the Government wants to take away some of that, then it is equally fair that when the contractor loses on such a contract, the CAG must recommend higher payment. Would you accept this position?

Secondly, there is absolutely no obligation, even under the Income-tax Act, to maintain accounts; a contractor can just submit his total receipts and ask the Income-tax Officer to estimate his profit and assess him on that. Where a contractor comes forward and says that he has not maintained accounts, what is the position of the CAG in the matter of

auditing his accounts?

SHRI K. LALIT: As far as the question of efficient and inefficient contractors is concerned, you will concede that where Government is giving such large contracts, it is the primary function of the Government officers who grant the contract to see that it is granted to an efficient contractor. In such cases they will not be giving contracts to firms which are considered inefficient.

About giving of profits, it will depend upon the terms of the contract. If the terms provide that certain expenses have to be taken into account and if the contractor is able to satisfy that those expenses have not been taken into account, they have to be taken into account.

The type of contracts which we have in view mostly include expenditure which has to be incurred by a firm on research and development. Most of these contracts are given in cases where no techniques exist and these people demand a certain sum of money for research and development. What element has to be allowed for research and development and how much has been spent by the contractor on that, can only be looked into if his accounts are independently checked. Most of such contracts were given by N.A.S.A. in USA and the defence authorities in Britain for a new type of plane and large amounts were recovered by the Government because they found that the firms had made profits out of all proportion to what they expected.

SHRI M. ANANDAM: When you enter into a contract, there should be a provision in that depending on the type of contract. Why should you have a provision in the Act?

SHRI K. LALIT: We only want that the Bill should provide for such a provision for such type of contracts; otherwise, it becomes a matter of convention. The Government may de-

cide tomorrow not to include such a provision. Therefore, unless stated to the contrary, it should be understood that such contracts should be subject to the audit of the Auditor-General.

SHRI S. S. KOTHARI: What in your opinion will be fair and reasonable profit?

SHRI K. LALIT: That will depend on contract to contract. It is a general question which I am afraid nobody can answer.

LEGISLATIVE COUNSEL: I want to ask one or two questions. Regarding negotiated contracts, as Mr. Anandam said correctly, unless there is a term in the contract itself that the contract will be subjected to an audit by the Auditor-General, can it be done? I think, it cannot be done. Would it then be within the scope of this Bill to include a provision, as in the American law, that there should be such a term in the contract itself?

SHRI TAURO: If the Act provides that for negotiated contracts entered into by the Government which have the value of more than a particular amount, the Auditor-General shall have an access to the books, then, I submit, whether the contract stipulates it or not, the Auditor-General shall have an access to the books. If there is such a provision in the Act, while drafting such contracts, the Government will be constrained to make suitable provisions to enable the Auditor-General to exercise this function adequately.

LEGISLATIVE COUNSEL: Possibly, I did not explain my point properly.

We cannot make a provision in this Bill because this provision will, undoubtedly, trench upon the fundamental right of the contractor to carry on his profession or business. Therefore, there will have to be a reasonable restriction. If you make

a blanket provision that his accounts will be audited by the Auditor-General, all the contractors will shy away from the Government contracts. The only way, as has been done in America, to do is to put a term in the contract itself so that the contractor knows, when he takes the contract, that this is a term of the contract and that, otherwise, it will not be entrusted to him. If we are to do that, would it be within the scope of the Bill to make such a provision? In my opinion, that will be outside the scope of this Bill.

SHRI RENGACHARI: The first point to be considered will be as to whether the suggestion or the point of view is correct in itself; secondly, whether it is practicable and, if it is practicable in some measure, how far it will be legal. These three questions are involved. Now, suppose there is an open tender contractor. The lowest tender is there. There is an automatic check. But in the case of negotiated contract, you will go on a certain basis. Suppose the contractor quotes a particular rate for various items. In the case of negotiated contract, your acceptance of a particular contract depends on various details worked out by him. First of all, whether those details are correct and whether those details have been worked out in a practical way, we do not know. Suppose, he says, he will pay labour at a particular rate but, later on, he pays at 1/4th of that rate. Then, you have been cheated and the labour has been cheated. As to how far it is practicable is another question. Now, the suggestion is not that in such cases, you should go into the whole range of accounts of all the books that he maintains. The books that should be open to the audit check should be the books dealing with the working out of his rates and the transactions or payments or various other things arising out of that contract for the fulfilment of the contract. Therefore, it is in this limited field that we suggest it. Thirdly, as far as my personal view is concerned, the

provision in the Bill, naturally makes it incumbent obligatory, on the part of the Government to insist on such a provision in all contracts. If you want to provide for any exceptional contingency, you may provide for it in the Bill. After all, the Auditor-General comes in in relation to the Government or the public sector undertakings or public bodies. He is not concerned with individuals as such. Therefore, as how it will be inconsistent or impracticable or illegal to provide a provision in the Bill itself for such a contingency I am not able to appreciate. Suppose you don't put it here. We have got different State Governments in India. If they do not provide for it, where is the remedy then? The Auditor-General will be out of it.

LEGISLATIVE COUNSEL: I was not going into the merits of it. My question was a restricted one, as to whether it is within the scope of this Bill to put a provision like that.

SHRI RENGACHARI: I think, it is quite within the scope of the Bill.

LEGISLATIVE COUNSEL: About the accounts of the Food Corporation of India and the L.I.C., as you know, both are governed by an Act of Parliament and the audit of the Auditor-General is excluded by an Act of Parliament. So, unless those particular Acts are amended, how do you think about the audit in regard to the accounts of the Food Corporation of India and the L.I.C.?

SHRI RENGACHARI: We plead with you to amend those Act. It is against the interests of the tax-payer.

SHRI K. LALIT: Please see that it does not happen again.

SHRI RENGACHARI: The Act can be amended also.

SHRI SUNDAR MANI PATEL: I am not going to raise points which have already been raised by my hon. friends. I have got one or two simple points

you observed that the Auditor-General's post should not be a political one. According to your knowledge, has there been any political appointment so far?

SHRI RENGACHARI: No, Sir.

SHRI SUNDAR MANI PATEL: But there is an apprehension.

SHRI RENGACHARI: If you look at the Constitution, in regard to judiciary, it says that he shall be a citizen of India and certain qualification have been laid down. Here, in the case of Auditor-General's post that he shall be an Indian citizen is not mentioned. Of course, we are not going to appoint a non-citizen from any other country. But if you do it, it is not unconstitutional as it is to day. Whether it will be unconstitutional from the point of view of another law, I do not know.

I am not going into politics myself. The point is, at the given point of time, under democratic set up, some party will be in power and it will be in a position to form a Government. There may be a coalition of parties also. If you say you can appoint anybody, what will happen is that a particular person with particular political leaning may be appointed to this post. There will be difficulties. I think, everybody will appreciate that it is not desirable to make this particular post a political post because he is going to look into all the transactions of the Government and bring them to the notice of the legislature. If he happens to be with particular political leanings, he will not be neutral. Therefore, you should appoint a person who is not expected to have any political bias, that is, he should be civil servant. politically, he should be neutral.

SHRI SUNDAR MANI PATEL: Usually, the practice is that he is appointed on the recommendations of the Government, that is, the Finance Department. The President appoints the C.A.G on the recommendation of the Government. Is that desirable?

SHRI RENGACHARI: A suggestion can be made that the out-going C.A.G.

should be consulted in this matter. But I do not know again, if you carry it to its logical conclusion, you may arrive at a certain conclusion. The point is that once a particular person is appointed, he is to undergo certain disabilities later on, that is, he will not be eligible for any Government appointment, this and that. Whether by making such a provision he can be expected to function in a completely independent manner is the point. I think we have to draw the line somewhere. As to what type of convention can be developed, it is a matter for bigger debate. I have given thought to this problem, but I have not been able to conceive of a solution.

SHRI S. M. PATEL: I have a suggestion that the Chairman of the Public Accounts Committee and the Finance Minister should make a joint recommendation to the President.

SHRI RENGACHARI: Whom the President consults is not open to us, and that is why the Constitution perhaps left it to the President to decide. You can develop any convention, but it will only be a convention. According to me, the outgoing Auditor-General should also be in any committee that may make the recommendation.

SHRI M. ANANDAM: I feel that there should be no objection from you to the Comptroller and Auditor-General compiling accounts because it is only in respect of compiling of accounts of governmental bodies which can be done only in consultation with him, but so far as audit is concerned, you have to do it. Once you are relieved of some responsibility, why do you object to it?

SHRI RENGACHARI: Let us understand the facts. While compiling accounts, your organisation comes to know of certain facts which you will not know otherwise. According to me it is compiling without responsibility for a transaction, and it gives the audit department an insight into particular transactions.

SHRI M. ANANDAM: But when I asked you, you said that the compiler does not know anything.

SHRI RENGACHARI: He can get knowledge. He is not involved in the transaction. But he comes to know of certain details which enables him to discharge his functions in a better way. Actually, there is no combination of accounts in the sense that he is not concerned with the initial accounts, with the contracts, with the actual occurrence of transactions, but things come to him at a particular stage and they are compiled. He is only a mechanism of compilation, and in the process he comes to know of certain details. It is not necessary in the defence of a puristic argument that separation of audit and accounts should be complete and there should be automatic separation. I have also said that if in parliament's wisdom in a particular type of transaction be compilation should be made by the internal organisation, let it be done. I have already explained the scope of consultation. It is not concurrence. Even if it is concurrence, according to me, it should not be done. It should be Parliament's prerogative to say that a particular type of accounting or compilation should be handed over to the Executive. Without reference to Parliament, do not do it. Do not leave it to the executive Government. Concurrence will be better than consultation, consultation means nothing but transfer of functions even with concurrence of the C.A.G. would not be quite correct.

MR. CHAIRMAN: Thank you very much for your valuable suggestions. They will be considered by the Committee in their deliberations.

SHRI RENGACHARI: Thank you for giving us an opportunity.

(The witnesses then withdrew)

II. All India Non-gazetted Audit & Accounts Association.

Spokesmen:

1. Shri A. V. Venkataraman—Secretary-General.
2. Shri S. K. Vyas—Additional Secretary.

(The witnesses were called in and they took their seats).

MR. CHAIRMAN: You may explain your memorandum to the Members. The Members would like to put questions to you and get clarifications in the afternoon and they would like to have some time for that I think it will be convenient for you to come at 5 p.m.

SHRI S. K. VYAS: Our organisation has going into the provisions of this Bill carefully and we have been asked to place before you their view-points.

The first point is about the term of office of the Auditor-General. Unlike in other countries, our Auditor-General has a tenure. Sometimes it happens that an officer belonging to ICS or other services at the fag end of his career in that service is inducted as Auditor-General and this operates to extend his service by that period because it is fixed as six years. Earlier it was five years, now it is six years. Probably this extension of one year was given to bring him on par with the Chairman of the UPSC. If at the time of appointment, he is given a virtual extension of six years, that would impinge on his independence. If a person who can normally still serve for five or six years is appointed, the situation would not arise, but if a man is appointed at the fag end of his service, it will virtually mean an extension which may not be desirable.

SHRI S. S. KOTHARI: How it is not desirable?

SHRI S. K. VYAS: Particularly in view of the independence we feel that

it should not be operating as an indirect or virtual extension. There is this possibility; normally a person belonging to various services has been appointed as auditor-general but according to the Bill and even according to the constitution anybody other than persons belonging to the services can be appointed as such. If that is so, it is very very essential that there should be some yardsticks which could be determining the appointment. And that yardstick will sometime bring to the Governments notice the necessity to consider whether an outsider should also be nominated as Auditor General. So we thought that if the committee is pleased to consider the matter then in that case some sort of qualifications like eminent professor of economics, commerce, public finance or public administration can also be considered. Normally it is so that either a person belonging to ICS or IA&AS Service has only been given opportunity and thereby this department has not got the air of outsider, a fresh air from the outside. That will also reflect the change in times; that has not come about. So, we also submit, this aspect may kindly be considered.

It is the President who appoints him but there is no provision as to how this appointment will be considered and particularly because of the fact that this officer is a person a constitutional officer, an officer specified in the constitution but at the same time this officer is an officer primarily for the Parliament. Therefore, Parliament should also have something to say in respect of his appointment. There can be the P.A.C. Members or other committee Members or eminent members who are veterans or even Rajya Sabha Members can be associated, and they can go into it; consider suitability and provide a panel out of which the Auditor General should be drafted; these are a few suggestions regarding this aspect of the matter.

Regarding pension I have nothing much to say except saying in case of

outsider if at all he is appointed the pension should not be left to the uncertainties of being determined as and when the situation arises by the executive but that it should also be specifically prescribed. I request my comrade to say something.

SHRI A. V. VENKATARAMAN: Our submission in this regard is this. This officer, the Comptroller & Auditor General is primarily answerable to Parliament only. It is Parliament that should be having a primary control not only with appointment of this officer, but also his duties and powers. With regard to the functioning of C&AG, we have referred to it later on. We feel honestly some sort of provision must be there in the Bill providing for the appointment, final duties and powers, with regard to exercising such powers, as an accounting officer, as an auditorial officer, etc. and this should be exercised by Parliament. That is in a nutshell what we would like to submit to this august committee.

SHRI S. K. VYAS: There are provisions in the Bill according to which the present powers of the Comptroller and Auditor General to consolidate the accounts of the State or of the Central Government can also be transferred and those provisions empower the President in consultation with the C&AG. That is, in consultation with Auditor General, transfer any accounting duties to the executive or allowing him the responsibility of consolidating accounts. We feel like this. In such a case there might be a situation when some A.G. opines against such a transfer; the executive nevertheless might relieve him of that responsibility. So, we have to submit this. Transfer of any part of his responsibility regarding accounting should also be done under the supervision and after the matter had been justified in the Parliament, that is, through legislation; that is our humble submission before the committee. There is a provision in sub-clause (1) of clause 10 of this Bill

which therefore needs suitable deletion because that would mean that ultimately executive will be transferring accounting work. This transfer of accounting work wherever it has been so far brought about has not yielded any commensurate results or significant advantages, and it has been tried in the Ministry of Works, Supply and Agriculture. Even to this day, after 15 years are over, they have not been able to decide the seniority and other aspects of the personnel transferred. There are some accounting complications which have gone to the Ministry, there are some audit complications which still remain in the audit side. There is another thing. Accountant-General, Works, Commerce and Miscellaneous. They are still on the common roster so far as their seniority is concerned. Why I brought up this aspect of the matter to your knowledge is to impress upon you the way the personnel is left to remain under an uncertainty for such a long time. Government started something as an experiment. They are not in a position to undo the experiment even when its failure has been completely and clearly established. In respect of transfer we noticed the Accountant General P&T as nominee of the C&AG had specifically said that transfer of accounting work relating to the telecommunication would not only be entailing huge extra expenditure but that it will result in many disadvantages, and it will also result in certain bottlenecks so far as the results are concerned. Administrative Reforms Commission has as a general rule recommended that such transfer should not take place. And they have given a leeway to the executive that they can consult the Auditor General but our pertinent point is that auditor-general may be consulted; he may opine against it; still consultation has been done and the executive will be empowered to transfer such works and in order to guard against such eventualities, I may say, we would submit that this may also be considered that any transfer of exist-

ing responsibilities of C&AG in respect of accounting—audit cannot be transferred—should be under the approval of Parliament.

Regarding public undertakings, corporations, Government companies etc. Audit is being extended, but in a very very grudging way. So many limitations are being put. Particularly when the limitation is there, under the Indian Companies Act if less than 51 per cent of the share capital is not invested by the Union Government or the State Governments, then it is not considered as a government company. What happens is that there may be a very big company with a large capital where less than 50 per cent of share capital may come to the tune of Rs. 200 crores or more. There may be a very small company with a share capital of a very small amount where if government's share even if it is about Rs. 2 crores will be more than 51 per cent. Therefore having this criterion of 51 per cent for declaring any company a government company thereby insisting on a statutory audit by the C&AG is, in our humble opinion, is somewhat an incorrect criterion. We beg to submit in our humble way that because this is an Act of Parliament, this percentage basis should be substituted by some other suitable arrangement so that wherever a substantial investment out of the Consolidated Fund of India is there it automatically attracts the statutory audit by the C&AG. This is our humble submission.

SHRI S. KANDAPPAN: We have been under the impression that we should rather prefer to hear something about their conditions of pay scales and their services *vis-à-vis* Government and this department and all that which would help us to make up our mind as to the functioning of this department is being carried on. They being the representatives of the Federation must know about this. I do not know whether they have been

properly informed about this. How are we to make up our mind whether the present structure is all right or not?

SHRI UMANATH: During the discussions in the Rajya Sabha on a report which was submitted earlier this question was raised by one of the hon. Members of the Rajya Sabha that the service conditions of the other ranks of the employees must also be included within the purview of this Bill. To this Shri Khadilkar's reply was that this was left to the Committee to recommend.

SHRI S. KANDAPPAN: I would make it a little bit explicit. When we examined the witnesses to-day as well as on earlier occasions, there was a reference made about the powers of the Auditor-General. Whether the same should be left to the Auditor-General to decide with regard to the appointment and deputation of employees together with the terms and conditions for such a deputation and all that. So, we would like to know from the witness as to how he reacts to this thing. Unless we get these things how are we going to make up our mind as to whether the present position is good or not or whether they would like to have a change and all that. I think this has got a bearing on this Bill.

MR. CHAIRMAN: They are at liberty to explain on that point.

SHRI S. KANDAPPAN: What about the powers of the Auditor General?

MR. CHAIRMAN: If the hon. Members so desire they can of course get enlightened about all these matters.

SHRI S. K. VYAS: With the respect to the Chairman and Members of this Committee I would definitely like to submit the following to this Committee. We in audit have always felt that we have been given a very rough

deal. Whether it has been given by C. & A. G. or by Government as such we do not know. But there are certain things which we have to keep in mind. Somehow or other the audit is resented to by the ministries. This is a fact. No ministry likes audit. And for that matter the Finance Ministry probably is averse of it. This is a fact.

SHRI PRAKASHCHAND B. SETHI: How have you come to this conclusion?

SHRI S. K. VYAS: Our own men who have gone on deputation to these ministries have come to this conclusion. This is their green experience about all these things. Therefore, it is based upon our own experience.

SHRI PRAKASHCHAND B. SETHI: So this is a matter of opinion.

SHRI S. S. KOTHARI: Would you kindly enlighten us as to whether there is discrimination against the subordinate staff in the Audit Service *vis-a-vis* the subordinate staff in the other ministries? Will you kindly highlight that point?

SHRI S. K. VYAS: I shall give you one glaring instance. The Railway Board has their own accounting service. In their divisional account offices, if the L. D. Cs. pass their confirmatory examination they are now given four advance increments as an incentive, particularly to compensate for the belated promotions. In the Indian Audit and Accounts Department, this scheme was introduced. But the Finance Ministry made the C. & A. G. to withdraw this scheme. Even today if you go into the background of it, you will be noticing that this scheme was meant initially for those persons who have passed the departmental confirmatory examination who will be given an advance start of Rs. 150. This is the position because these people got their belated promotions. It was not possible for them to get their due incentive because some used to get four increments while some others got only three or two increments depending

upon their belated promotions. Ultimately a Rs. 150 this incentive used to disappear. We charge with the defect in the scheme. The scheme which was implemented in the Railway Board was modified so as to give them uniformly four advanced increments. This was the improvement made. Initially there was a tussle between the Finance Ministry and the Auditor-General. The Auditor General said that he has the powers under a particular provision of the Fundamental Rules. That fundamental rule provision was itself modified with the result that that power was withdrawn from him. And ultimately even today whereas in the Railway Board they are getting four advance increments, our people are not getting those increments. I think this is a typical example which will justify that there is discrimination. There are people who are all in the Public Corporation's scales.

SHRI S. S. KOTHARI: How do the pay scales compare as between those working in the Ministries and your department?

SHRI S. K. VYAS: I am coming to that. There had been so many Auditor-Generals. Actually, in 1919, for the first time the time-scales were introduced in the Indian Audit and Accounts Department as also in other departments. Prior to that the audit employees used to get a little bit more than their counterparts in the Central Secretariat. What happened was that when the scales were given, even at that time, the then Auditor-General said that it was highly doubtful whether these scales would be suitable to his department. This is a recommendation which has gone from him. There is another recommendation which is based upon a particular phenomenon in that department. That is this that even a trained personnel resigns for going to another public appointment because that is always a better appointment. A large number of persons are going to the public Corporations only because the pay-

scales are better with a higher minima and maxima. There are accounting branches attached to these Corporations. For example an S.A.S. who is getting a scale of pay of Rs. 270—590 is getting the scale of pay of Rs. 350—900 in the public Corporations. Take for instance the State Trading Corporation.

SHRI PRAKASHCHAND B. SETHI:

The Corporations are not governed by the recommendations of the Pay Commission. They are independent autonomous Corporations. For example, the pay scales in the Reserve Bank, State Bank and various other public sector undertakings may differ while you are all governed by the recommendations of the Pay Commission. It has been provided in the Constitution that the conditions of service, duties, powers etc. of the Indian Audit & Accounts Service shall be such as may be prescribed by rules made by the President, after consulting the Comptroller & Auditor General.

SHRI S. K. VYAS: We fully agree with you.

SHRI PRAKASHCHAND B. SETHI: Don't compare with the Corporation. Compare with the Government.

SHRI S. K. VYAS: Even our AGs who always come from the Secretariat, have gone on record to say, some times before the Economic Committee and some times before the Parliamentary Committees, that so far as the responsibilities are concerned, the UDC of the Indian Audit & Accounts Department is comparable to the Assistant of Central Secretariat, and SAS Account is comparable to the Section Officer. And this inadequacy of our present pay-scales has not been gone into by any body so far. As we are designated as UDCs, the Pay Commissions will not look into it because they will give recommendations on the general scale separately, and not spe-

cifically for the audit employees. An UDC is defined as a mechanical clerk so far as the Central Secretariat is concerned; and an Assistant is defined as an intelligent clerk. We suffer from the misnomer ever though as UDCs, we do the work of auditing.

SHRI A. V. VENKATARAMAN: Even with regard to the revision of pay scales, I can point out instances when after the Pay Commission was appointed the P&T Department Unions had bilateral agreement with the then finance Minister, Shri Sachin Chaudhary, and there was an upward revision of the pay-scales of classified Services in P&T Department. There was an upward revision of the pay scale of the lower selection grade of P&T from Rs. 320 to Rs. 350. While in our Departmental Council meeting, whenever we pointed out to the Auditor General any scheme or proposal involving financial implications, the Auditor General did not permit even the discussion of such subjects on the plea that the Finance Ministry was not agreeable to such revisions. Even when we pointed out to him that there are instances with regard to Ministries where such revisions have taken place with regard to pay scales, he pointed out that there is a blanket ban by the Finance Ministry. Even when the Administration was convinced about it to refer the matter to arbitration, the Auditor General was not prepared to concede to this request of the employees organisation. In the Audit Department also, certain posts within the span of 10 years have been up-graded at the top level, and more appointments like the Additional Dy. C. & A. G. and other things have been created. And when it was possible for them to create such posts and to give some extra allowances to the Accountant, P&T etc., it is difficult to comprehend the argument of the Auditor General that the staff at the lower level could not be given the same privilege and advantage. He should have approached the Finance Ministry. There has

been a provision also which says that, in cases where there is a difference between the Finance Ministry and the Audit Department, the matter should be taken up by the Comptroller and Auditor General with the Finance Minister, and a settlement arrived at. I do not know whether this particular thing was also taken up by the C&AG. Anyhow, we have to submit humbly before this august Committee that while the subordinate staff in the Audit Department has been loosing what it had originally, at the top level there has been some sort of improvement with regard to their position. Secondly, my friend was pointing out about the separation of audit and accounts. You will find that there is a sort of confusion. Of late, there has been a sort of what is called mobility between the Accounts Department and the Audit Department. They say that an Accounts Officer must have an auditorial knowledge and the Audit Officer must have an accounting knowledge. When an Audit officer goes to the Accounts Department, I do not comprehend to what extent he would be doing the accounting, and when objections are raised when he is an Accounts Officers by the Audit Department, and when he comes over as Audit Officer, how he will be able to explain or justify the objections raised by the Audit. For instance, the Chief Pay & Accounts Officer is a member of the Audit Department, who belongs to the Indian Audit & Accounts Department. He goes as Chief Pay & Accounts Officer. His accounts are audited when he is the Pay Officer. And when he comes over to the Audit Department, how can he maintain the auditorial independence while he functioned as the Chief Pay & Accounts Officer. So also with regard to the deputation of the Indian Audit & Accounts Service people to the Corporations. I would like to place before this august body that there have been more than 50 per cent of Indian Audit & Accounts Officers on deputation to various corporations and institutions. And it by passes our comprehension how the independence of

audit could be maintained. This has got to be considered not from the point of view of employment opportunities but from the view of maintaining the auditorial independence of the Auditor General. Recently we have come to know that the various corporations have asked those who have come on deputation to absorb there or to go back to the parent Department. So, it is our submission that a Parliamentary Sub-Committee should go into the question of the entire structure, composition and functioning of this Department which will give a correct perspective. That is a very important thing. Because, we feel that there has been a lot of confusion. For instance, as we have been pointing out, there is the transfer of accounting to the P&T Department like Postal Life Insurance, Savings Banks, CTD etc. It would involve expenditure. But I am subject to correction. The transfer of tele-communication accounting, if fully implemented, will involve an extra annual expenditure of a crore of rupees. That is what we are told. At this cost—when the Auditor General himself finds that in the present state of affairs in our country the compilation of the accounts as well as audit should be vested in one authority leading to greater economy—how the Auditor General could agree to the transfer of the accounting work to another Department. I feel he should have objected to such a transfer because it would lead to greater administrative difficulties for him. A similar scheme was introduced by Central Government and accounts relating to Ministry of W. H. & S. separated because of considerable increase of expenditure without commensurate benefits the scheme has not been extended but the same AG(P) has agreed for the transfer of this tele-communication accounts to P&T Department. We feel, Sir, when it comes to a question of this accounting and auditing not only with regard to the functioning of the Auditor General even the very structure of the Department—their pay-scales—be compared to other services.

The minimum qualification that is obtaining for recruitment to UDC is definitely of a higher order here than in other Departments. As Sir Ramaswamy Mudaliar Committee made a recommendation barring the Accounts Deptt. graduation should be the minimum qualification and graduate was recruited in Audit Department as UDC. Taking that into account we feel that particularly in centres like Calcutta, Bombay, Madras and Delhi the audit staff in commensurate with the duties involved should be taken into account in fixing the pay structure. Secondly, whenever employees are taken over to the other Departments we feel that they are not taken kindly not only our work is not taken kindly but also our employees are not taken kindly by the executive Departments. The Savings Bank staff transferred to P&T are clamouring to come back to Audit Department.

We feel these things have to be taken note by this august body. We cannot suggest to you how the pay structure has to be evolved as it would be rather impertinent on our part to talk about the performance of our own duties. We would expect our audit authorities to go into the question when they say the responsibilities of the senior officers have gone up and their pay is required to be increased, I think, the position of employees is to be taken note of.

(The witnesses then withdrew.)

(The meeting then adjourned to meet at 15.00 hrs.)

(The Committee re-assembled after lunch at 15.00 hours.)

(SHRI S. M. JOSHI in the Chair)

1. Shri S. Ranganathan, Comptroller and Auditor-General of India.

2. Shri Mukherjee, Deputy Comptroller and Auditor-General of India.

(Witnesses were called in and they took their seats).

(Direction No. 58 was read out to the witnesses).

MR. CHAIRMAN: You have sent a very good memorandum, and we have all gone through it. If you want to highlight any points or supplement it, you can do so now.

SHRI S. RANGANATHAN: I personally have nothing more to add to the memorandum because I have made it fairly exhaustive. If any point requires clarification, I would be glad to give it.

SHRI VASUDEVAN NAIR: I came across a particularly new point raised by you on this question of audit of accounts of those who are getting import entitlements for export performance. Your predecessors who had appeared before us and others who had covered all the other points referred to by you have not referred to that point. So, that was a point which interested me very much. It is a very important matter, because there has been a lot of talk about the misuse going on in that regard. I would like to know how you visualise to check the alleged malpractices or misuse that is going on and how your department can play a useful role in it.

SHRI S. RANGANATHAN: It would really depend on the nature of the incentive which Government, ultimately supported by Parliament, wishes to give for the purpose of export, whether they give an unconditional subsidy or cash assistance or anything in any other form. All that Audit could do is to see that the conditions on which the person is entitled to any kind of subsidy are fulfilled. But there are a number of items in which the export incentive is really intended to cover the additional costs of production in India as compared with the international price. Where such conditions exist, I think Audit could verify the cost of production here and ensure that the gap that is intended to be covered is really existing and it is not an unjustified subsidy that is being given. In practice, it requires a fairly close acquaintance with the manufacturing processes here, the cost of the raw materials and the comparative cost of

raw materials and things abroad. Of course, so far as the position in the importing country abroad is concerned, you go by the price they are prepared to pay and it is available from the records. But, here, if a man can produce and have a size margin and still export without any subsidy from Government, if he claims and is given some subsidy, then that would be redundant. In such cases it would be possible to say that this payment need not be made if the intention is only to cover this gap. In practice people may object to this by saying that it would mean that the Auditor-General would have to cost the production in a number of units and individual cases. My experience is that it need not necessarily go to that extent. Even a kind of rough costing will be adequate to get an idea as to what order of subsidy is required. Today, for example, when they give an import entitlement to cover what goes out in an item that is exported, we do not find it difficult to find out how much a particular product cost more because they have used an indigenous cheaper imported item; the gap we can work without much difficulty. It is not going to cause any serious trouble in the matter of computation of how much has to be allowed to be imported. So, in practice I do not think that it is going to be an insurmountable difficulty. I know, at the moment if a proposal of this kind is put forward, not only the administrative Ministry which operates schemes of this kind, but even the actual exporters may throw up their hands in horror and say, 'Are we going to allow ourselves to be investigated every day and every month on every single item that we produce?' That fear is possibly somewhat exaggerated. In practice, to-day we check the drawbacks when a certain thing is exported and it is not strictly covered weight for weight in every individual item. We work out a general formula depending on the individual unit or taking the entire industry as a whole and say if it is 10,000 tonnes,

we can assume for example that so much is rubber and so much is carbon. I think workable methods can be formulated and the mere fact that there is going to be an audit is itself a healthy thing. That is as for I would say.

SHRI VASUDEVAN NAIR: Now, coming to the question of relationship between the Auditor-General and the Finance Ministry which has been a subject of discussion here from the very beginning, I should like to have a little clarification from you. Now we understand that there is this kind of a convention laid down that when there are some differences, then you at the highest level take it up with the Minister and try to get a solution to the outstanding problems. I should like to know what your experience is during your tenure of office and whether you could satisfactorily solve most of the problems that faced your Department.

SHRI S. RANGANATHAN: The only occasion on which I may have any serious difference of opinion is in the matter of getting expenditure sanctions and on the technical side while even if the Minister and I may discuss, if he is unable to persuade me to accept his view, I still have got the freedom to stick to my view and if necessary, put that in my report. But, on the expenditure side, if the Finance Minister finally says that he cannot afford to find the money or he does not think that the post of a particular status which I may be asking for is necessary, I think normally the Auditor-General should be prepared to accept it. I agree that it could be a source of lot of attribution and patty pin-pricks but, by and large, in my time I have not had any serious occasion to face such difficulties. Normally, the Auditor-General has the power to sanction posts so long as the pay of the post is similar to some existing post anywhere in the Government. So long as I can find money

for it within the budget provision, I do not think it causes any trouble. I know some people have been saying that even in the determination of the total budget for the Department, the Auditor-General should have more or less an absolute right to ask for what he wants. My personal feeling is that it is going a bit too far. After all your budget is still to be financed and met by the Government and to say that whatever you ask should be granted does not carry conviction to a reasonable man. If you say that, it will be pitching your demand rather too high, I think the present convention has been on the whole working satisfactorily and I cannot myself think of any statutory provision which can guard against it and we should really hope to build up conventions rather than think in terms of any statutory protection of this kind.

SHRI VASUDEVAN NAIR: What is your impression about your organization from top to bottom? What is the morale among your staff? Are they really feeling that they are not getting their due and if you also feel that they should get a better treatment, then what is the reason for not giving that kind of a better treatment to them and is it your experience, as we are told by certain people, that some of your best people are leaving your institution very often because they are offered better places in some corporations, e.g. public sector corporations and some other sectors like that because it is more attractive and more remunerative? Is there such a process going on?

SHRI S. RANGANATHAN: There are quite a few people who go out on deputation.

SHRI VASUDEVAN NAIR: I am not talking about deputation. I am coming to that later.

SHRI S. RANGANATHAN: The people who have so far gone to pub-

lic sector undertakings also are mostly on deputation.

SHRI S. S. KOTHARI: To the private sector.

SHRI S. RANGANATHAN: Very few have gone to the private sector. In fact far more people from Income Tax Department have gone to the private sector than from the Audit and Accounts Department. Most of the people have gone on deputation really to the public sector. They have not resigned. In fact now when the Government have offered terms on which they could retire and go to the public sector undertakings on slightly better emoluments, there is a lot of hesitation on the part of the permanent Government servants to give up their regular service and on retirement take some proportionate pension and go to the public sector corporations even though they might get slightly higher pay compared to what they are likely to get in the Department. A difficulty, however, does exist in this sense. There is a feeling, and I think it is justified because I speak with a certain amount of experience, having worked in other departments and services before, that the pay scales in the Audit Department starting from the highest class I posts, right down to the lower division clerk, are pitched on the lower side.

I used to be in the Finance Ministry in my earlier career. Once you start equating posts in one department with those in another, you have to have the same scales of pay; whether it be lower division clerk in the accounts office or in the income-tax office, he has to get the same scale of pay. But what I would like to do, if I had a free hand in organising this department, would be, apart from bettering the scales of pay of class I, is to improve the pay scales of the class II people and man the clerical

posts by higher-salaried people rather than the lower division clerk. This will improve the working of the department. But, of course, the total impact on the expenditure may be comparatively high. But we can try to offset the additional expenditure by mechanisation; I doubt whether Government will be able to face the extra expenditure involved. But if I say that the clerical scales of pay are low, it is possibly correct to say that it is so in all departments of a similar kind. There is only one difference that I would mention that some of our subordinate accounts service people are paid lower than what they deserve compared to the secretariat people such as assistants and section officers or what corresponds to these posts in the different departments. This is more historical than deliberate....

MR. CHAIRMAN: You mean that the equation is not properly made?

SHRI S. RANGANATHAN: The equation is not properly made. That is how I would put it.

SHRI VASUDEVAN NAIR: In regard to deputation, is it a fact that there is a lot of temptation for your officers to go on deputation to the various public corporations and such other bodies? Is it also a fact that there is practically no time-limit for the period for which they are away from your office. Some people go on serving for five or six years and sometimes even up to ten years. Are there cases like that? If that be so, then when they come back to your department, how is it possible that they can judge the performance of a department with which they were connected with independence and impartiality? I am not talking of any particular individual. But how is it possible for such a person to function with detachment? Would you like to encourage this kind of deputation or would you like to discourage it?

SHRI S. RANGANATHAN: My own personal view is that working on deputation for a reasonable length of time does good to the man, even if he were to do regular audit subsequently. The idea that an auditor is to be completely insulated and he must live in isolation is not really correct, and I do not think that it does confer any great benefits, but care should be taken, depending on the type of work which he is doing on deputation, to see that he does not become the auditor of the same unit in which he may have been working unimmediately before in some other capacity. I can easily understand a man working in one unit and the managing director of that unit not accepting many of his recommendations, if I bring him back and put him as auditor of the same unit, he could say 'All right, now I shall teach this man an indirect lesson; I shall raise all possible objections in audit'. That is however putting it at the lowest level of human character. In practice, it is safe to avoid this kind of thing. But I do not think that any great harm has happened even where the same man has audited the same unit where he was formerly working. I think officials are trained to do this, namely to apply themselves loyally to the particular duty with which they are charged for the time being.

When I first came to the Government of India, I came from the UP cadre, and many people used to think that if a proposal came from UP since I happened to be working in the Finance Ministry here, I would be in a position to agree to whatever demand the UP Government might make. In practice, I knew how difficult it was, because one has to argue on paper and justify that the demand which a particular State Government is making is really fair, and again, one is not the arbiter of that decision in the final analysis, because there are other people to look into it, and one could easily be caught if one tries to exhibit any kind of

undue favouritism in coming to a decision. The same sort of thing applies in audit also. I can say this from my own practical experience.

I used to be in the Industries here for many years. Even after I came here, there have been one or two cases which have been thrown up in the course of regular audit and which have come up to me where some particular action which was done not necessarily directly by me but by somebody working under me was defective in some directions, and I have had no difficulty in accepting the audit point of view and saying that that should not have happened. When I myself put it to the officer who may have been working under me in the Ministry he did not think that I had just changed over because I was sitting in a different Chair. Where there is reason to justify a particular view, I think most people are prepared to accept it. So, I think that deputation does not materially detract from the performance of audit functions.

SHRI VASUDEVAN NAIR: But the period of deputation should be for a reasonable length of time only.

SHRI S. RANGANATHAN: Normally, if a man goes out, depending on the level of the post, for three or four or five years, I do not think that it will materially hinder his own career or the department. But there are some people, not very many, who once having gone to stick there. But that is not because of any particular favour that is being shown to them as individuals. In a large number of cases, it happens because it is found difficult to replace them. People develop certain specialisations in their work and if you pull them out, it is difficult to replace them; and so sometimes they do stick on, and they do not come back to us. It is as good as their having been seconded permanently for some other job. Once in a way it happens, and I do not think that it affects either the department

lending him or the borrowing department adversely. These are comparatively rare cases and not regular instances.

SHRI C. D. PANDE: While replying to an earlier question, you had said that you had no difficulty in handling or in meeting the situation *vis-a-vis* the Finance Ministry in your dealings. You are one of the most senior members of the ICS and you have had the reputation of being very friendly with everybody, Ministers, secretaries to the Finance Ministry, your juniors and so on. But suppose a time comes when there is somebody who is not so very well disposed and he becomes the Auditor-General, do you not think that if he sends a proposal, even a reasonable proposal, the other man may just put him to trouble and cause vexation? In such cases, what is the remedy that you would suggest? Do not take a subjective view of things only. Please take an objective view of things.

SHRI S. RANGANATHAN: I will say this quite objectively. If the Finance Minister who according to convention makes himself accessible to you for discussion if you feel that any particular matter should be discussed with him, is not convinced that your view is right especially in matters of expenditure sanctions, I do not think the CAG can want to go to a different or higher forum as a matter of appeal. Because in practice you must reach a level at which things have to be sorted out between the two parties, or you must think in terms of exploring what remedies you have, short of going to some other court of appeal.

SHRI C. D. PANDE: Finance Secretary.

SHRI S. RANGANATHAN: Above the Finance Secretary, I have got the right of appeal to the Finance Minister. That is why if the Finance Minister is not convinced by what I say, the only remedy open to me, if I really strongly feel about it, is to

go. There is always that remedy open to the CAG. I do not think an Auditor General who puts forward a proposal and feels about it sufficiently strongly would continue in his job if he feels that his very legitimate demand is being refused. That, I think, is the last resort. I do not think it is possible for the Auditor General to go on appeal to some other forum.

I have often suggested that on some particular matters, not on expenditure matters but certain other types of matters, it will better if the matter were placed before the Cabinet and a general decision taken by Government as a whole. On one or two occasions, I have accepted that. If the whole Cabinet takes a view different from yours, I do not think the Auditor General should say that he alone is right and the whole Cabinet is wrong. This is a practical view I am suggesting.

SHRI C. D. PANDE: There are some matters which are not strictly within your ambit which are covered by the PU Committee, the Estimates Committee and the PAC. At the same time, considering the systematic and scientific manner in which the Auditor General can handle those things it will be possible to check those things more effectively. I am not referring to the day to day routine of auditing which in olden days was limited to seeing whether the voucher is correct, whether the granting officer was there, whether the signature tallied and so on. Thirty years ago the whole budget of the Government of India was of the order of Rs. 100 crores; today it is something like Rs. 3,000—4,000 crores; the States budgets come to Rs. 6,000—8,000 crores. Public undertakings have vast amounts invested in them. They have also to be audited. In this manner, you have to discharge this function with regard to Rs. 10,000 crores today. With this tremendous increase in the scope of work, do you think you are meeting your obligation with success effectively particularly with regard to efficiency

audit, the soundness of programmes, whether the targets as to dates and expenditure are adhered to and so on.

Take, for instance, Bokaro. The original estimate was Rs. 600 crores and it was to come into production by 1971. Now we have to spend more and the plant will not come into production before 1974. That means there will be a loss sustained for three years in terms of interest, depreciation, lack of production and so on. Do you think that this aspect should come within your purview, if it has not come so far?

There are other cases also. A certain officer places an order for some equipment worth Rs. 2 crores. The equipment comes and it is not even opened for two years. You are struggling to check and find out why Rs. 100 was spent wrongly if it was wrongly spent. But here is a case where equipment has not even been opened for five or ten years. This will cover half the work in your department in a whole State. You will not detect defalcations or misuse of the extent of Rs. 2 crores in a State like UP even in one year, whereas a single action by a certain executive authority, or want of action on its part, will lead to a greater loss.

So I want to know whether cost accountancy, programme efficiency, soundness of schemes, performance etc. would come under your view, and if so, in what way.

SHRI S. RANGANATHAN: So far as performance audit is concerned, specially in relation to public sector projects, I am trying to audit not merely the financial expenditure from the regularity point of view but also from both the efficiency and the propriety point of view. Taking the example of Bokaro, I come to function only after Parliament votes a certain expenditure. The stage at which the objects to be taken about the delay or extension of time that may have occurred in any project

coming to fruition is not so much a direct audit issue as an issue which Parliament should take into account before voting the grant. But once Parliament have voted a grant knowing full well that Bokaro instead of coming to fruition in four years is going to take 8 and knowing even at that stage that it might cost so much more, it would not be of any great value if the CAG were to point out in a separate report that as against the original estimate of crores and production within three years, actually its cost is 2 crores and production in 6 years.

But within the scope of the budgeted sanction, audit nowadays does go into this larger question of efficiency of production. In fact, with the setting up of this institution of audit board which has just started functioning, I am happy that these aspects would come into more prominence. In fact, ever since I became Auditor General—and even before my predecessors in this office used to do this—I have been persuading the audit department to devote themselves not just to looking at the log books of staff cars but concentrate more attention on actual production programmes. After all, I can only do *ex post facto* review. When the audit board does a periodical review once in four or five years in regard to a particular project, the first review it makes when that project goes into production will certainly bring out what the original cost was expected to be, how long it was expected to take to produce, and in actual fact how long it has taken and how much more it has cost than the original estimate. Subsequently, of course, this will lose its importance once it goes into production, unless it slides back. Even without an Audit Board, in half a dozen cases, during my time and my predecessor's time, we have taken in hand comprehensive review and we have brought out how far they lagged behind compared to original anticipations. I think the Audit Department's review of the Hindustan Steel Ltd., and the Mining Machinery and Allied Products, both

produced before the Audit Board came into existence are good examples of how much you can bring out even without an Audit Board, in bringing out this kind of points which you just mentioned.

SHRI S. S. KOTHARI: In the working of the Public Undertakings Committee, as a member of it, I have found the audit reports most useful.

I would like to have your opinion whether you actually feel that owing to parsimony on the part of the Finance Ministry, your efficiency is being affected, and if you are allowed a liberal grant or *ad hoc* increase in your budget, it would increase the efficiency of your department?

Where you have to employ technical personnel for audit, have you been allowed additional funds for that, if not would you like more funds to be allotted.

Have there been occasions in the past where you have approached the Finance Ministry for increasing the strength of your staff, the number of your officers, their emoluments, their grades, and you have met with a wall of refusal, or you have found the Finance Ministry not accommodating?

MR. CHAIRMAN: There was a question previously put to other witnesses who came before the Committee that expenditure is increasing, work is also increasing, but your staff is not increasing.

SHRI S. RANGANATHAN: It is quite true that the senior posts in the Audit Department have not increased in proportion to the senior posts in the Secretariat, both in the Central and State Governments, but it is not necessary in my view to attempt a proportionate rise in the staff. Even if you go by the financial expenditure involved, if one item which costs Rs. 100 takes a certain time to audit.

it does not mean that if it costs double that price, that must have two men to do it. The same man will probably be able to do it within the same time, so that this idea of proportion may not be really valid, but I have felt that I would like to have a larger number of senior posts, but I will not say that I have asked for them and the Finance Ministry stopped me from having them. My difficulty has been in a number of cases to find men with enough experience. There is no point in having the posts if I do not have sufficiently experienced men to fill those posts. This is without prejudice to what I said earlier that I would like the pay scales to be increased, but the other is not an isolated question which can be considered with reference to the Audit Department only. It will have repercussions on all other Central Government Departments, and now the Pay Commission has been appointed. If I do make any request, I have no doubt that the Finance Ministry will say that I should wait for the Pay Commission's report. So, they have got a convenient alibi for at least two or three years. I do not blame them, because they have to face the situation. If they agree to increase the scale of pay of, say, the Accountant General, they cannot do so unless they are prepared to increase the pay scale of the Commissioner of Income-tax or the Collector of Customs and so on. Whether I am Auditor-General or not, I cannot refuse to take into cognisance this aspect.

The other point which he mentioned was about the total increase in the budget for my department. It is true almost every year I do total up my demands and discuss it with the Finance Ministry, and not often they discuss it with me and try to bring it down, but that is not in any spirit of doing you out of what you would like to do legitimately, but they also like to keep a certain parity. If all the other departmental expenditure has gone up by 10 per cent, and if I ask for a 30 per cent increase in my budget, it puts them in a diffi-

cult situation. Where I feel that I am not bothered about the comparative percentage and these posts are actually necessary and I do want them, I have not so far come across any occasion when they have said that though I may need them, I cannot have them. I have never come across that attitude. As I said earlier, I do not think we can provide for it except by hoping that good sense will prevail on both sides. Regarding the Audit Boards so far there has been no difficulty in getting technical personnel. Technical persons are not selected entirely by me. They are supposed to be selected in consultation with the administrative Ministry concerned, and where they happen to be Government servants, there is no difficulty. They come on their own pay scales and whoever pays their salary will continue to pay them. If I recommend that somebody out of the way has to be appointed, I have no doubt that the Department will be able to find the money for it, or alternatively give me additional money to pay for it. I do not think there is any financial difficulty in appointing technical personnel.

SHRI S. S. KOTHARI: In the case of Jessops, the percentage of Government holding is less than 51 per cent. Then, there are various corporations and units like the IFC, Reserve Bank of India, LIC, Unit Trust, and now the nationalised banks, where the Auditor-General in effect does not have any jurisdiction. It is also not a part of the normal duty of the Chartered Accountants in practice to look into the propriety aspect or to see that everything has been done within the budget or within the administrative powers of the particular corporation or unit. If that is so, and the Auditor-General does not have jurisdiction, do you feel that the propriety aspect, the costing and the budgetary aspect are being in a manner ignored in audit, that there is no control with respect to those matters in those corporations, and in view of that, do you feel that the Committee should recommend that the Auditor

General's jurisdiction should be extended to these units?

SHRI S. RANGANATHAN: Jessops is one type of case where, because of the share-holding being less than 51 per cent, it is not yet formally treated as a Government company, and therefore the Auditor-General does not audit. In the case of Jessops they need not have asked me to audit. If they appoint an auditor except on my recommendation, I have not got powers to give them any direction about what to audit. I have myself expressed the view in my memorandum that it would be much more rational that the CAG audit should be invoked or excluded not on some theoretical concept of 51 per cent but if necessary on the proportionate share capital combined with the absolute amount of investment involved. Jessops is a case where I think the Auditor-General should in reason be asked to audit. I remember a case earlier on, Bolani ores, I think, where the department had 50.5 per cent and it was one of my predecessors who said: I presume this figure has been kept below 51 per cent in order to keep me out of auditing it. The departmental Secretary immediately said: this thought never occurred to us and we would invite you to take on the audit. My view on that is already in the memorandum. In regard to banks I myself feel that there is no rational justification for keeping the CAG out of them. People may say that banking is very different and it is not amenable to a rule of the thumb. A man may have to advance money to somebody on his assessment of credit-worthiness and this may not be amenable to audit. There may be some narrow spheres of this kind. Take the Reserve Bank where you say the open market operations are not amenable to audit. But if you keep out all these things, there will still be left a large area which will be amenable and which, I think, Parliament will benefit by allowing the CAG to audit. I have no doubt that any CAG who has any experience—I doubt whether the Government will appoint a man who has

not had any experience, as Auditor-General—will go and pick holes in spheres which are not really amenable to audit and put in paragraphs in his audit report and make them the subject of debate in PAC and Parliament. There is a great corrective force; what the CAG does mention in his report gets debated and discussed in great detail before the PAC. Therefore, the CAG cannot function with any sense of lack of responsibility and that being the position, I feel that it is much better to make everything amenable to audit and leave the scope of audit to be decided by him, if necessary in discussion with Government. That would, I think, ease the position over a large field.

The hon. Member asked whether the chartered accountants who do the audit are precluded from, or in practice do not do, what we call propriety audit. I think it is a fact, and many chartered accountants whom I know have accepted it, that while there is no prohibition under the company law from their going into what we call propriety audit, they do not normally do so because if they do that, they run the risk of incurring the avoidable wrath of the board of directors who generally control the further appointments.

Where the chartered accountants are appointed on the recommendation of the CAG I have given directions as to what they should do and in most cases I discussed those directions with them before I issued them so that they may be workable in practice. As they have now been framed I think quite a number of them will cover the aspects on propriety but even if you do have a chartered accountant audit—he may raise the question of propriety—I think it is not the same thing as the CAG having the right to oversee or do the supplementary audit. The fact that an independent authority like the CAG is likely to oversee certain things will give considerable backing and strength to even a chartered accoun-

tant. Because in practice while it is true that CAG's recommendation in regard to appointment of an auditor is accepted automatically by the Government and thereafter by the board of the public sector undertaking, in practice many chartered accountants feel diffident about raising it on their own. They may come and discuss with me; now, this is what I find; how shall I put this thing? Because in the board itself, although the public sector board is in some respects different from the private sector boards and the auditor appointed on my recommendation may also be sure of a certain amount of backing from me, so that he will not be removed from the next year's audit, there is always the likely fear at the back of the auditor's mind that if he goes too far on his own, he may not have the same opportunity to continue with the audit. This is a practical fear. While nobody will say: this fellow is giving too much trouble, please give me another auditor; in practice there are 101 ways in which you can find fault with the auditor's work without even really revealing you want to get rid of him. This often happens. That is why if there is a chartered accountant audit the fact that the CAG has a right to do a supplementary audit and issue directions both to the institution and the chartered accountant will have a salutary effect. That is my view.

SHRI S. S. KOTHARI: If a blanket provision is made that the CAG may make such test checks in any of the undertakings which were named earlier as he deems necessary with respect to certain aspects, do you feel that could probably serve the purpose without having a formal supplementary audit in all cases?

SHRI S. RANGANATHAN: If you give the CAG the right to audit in this enactment or any other enactment that may govern specific corporations, banks, etc. the scope and extent of audit may be left to the discretion of the CAG. I think it will

be difficult to foresee all possible cases and prescribe for each in the statute. I am afraid you will have to leave it to the CAG what he will look into in each type of case. It is perfectly open to the Government or the institution concerned to discuss it with the CAG and tell him if you do this kind of audit, no work will go on.

SHRI S. S. KOTHARI: My last question is with regard to the contracts entered into by public undertakings. You have suggested auditing of the accounts of the contractors. Even that amounts to a post-mortem. If we were to suggest that a contract exceeding, say, a crore of rupees entered into by a public undertaking shall in its final draft from be sent to the CAG for his approval or review, what would be your reaction?

SHRI S. RANGANATHAN: The proposal I have made is with regard to contracts entered into without inviting tenders.

SHRI S. S. KOTHARI: We find that in the contracts entered into by the public undertakings in many cases there are lacunae in agreements as a result of which they suffer huge losses.

SHRI S. RANGANATHAN: I submit that would not be a proper function of Audit. This has to be done by the financial authorities of the institution concerned; if necessary, where they could have a good internal audit, they can consult them. I would suggest that it is not the proper function of an external auditor to go into, at the stage at which the contracts are entered into.

SHRI S. S. KOTHARI: You have said at page 25 of the memorandum that as Comptroller and Auditor-General you have refrained from making any mention about the terms and conditions and salary and allowances and pension of the Comptroller and Auditor-General. We appreciate your discretion. But what would you expect this Committee to

do in that respect? Can you give us some idea about it?

SHRI S. RANGANATHAN: I am quite willing to say what I think about it. I am prepared to qualify it by saying that if it leads to any improvement I do not want to benefit by that improvement myself. I am prepared to leave it to my successors to benefit by it, if ultimately Parliament does agree to better the service conditions of the Auditor General.

SHRI S. S. KOTHARI: Are there some salient points where you feel improvements could be effected?

MR. CHAIRMAN: He is coming to that.

SHRI S. RANGANATHAN: In the present atmosphere, I do not want to raise the question of salary. Rs. 4,000 has acquired a kind of mystic significance as a ceiling. I would say that in comparison with a judge of the Supreme Court, the Auditor-General should not suffer adversely in the matter of salary. I would say the same thing about pension. I know there has been a lot of criticism about a retired Auditor-General taking up employment even in the private sector. Now, in the case of a judge, that kind of restriction does not exist. In fact, the Auditor-General suffers under a greater restriction in that the Government cannot even attempt to offer him anything, whereas a judge can be appointed to a Commission even on a permanent basis in certain types of jobs.

MR. CHAIRMAN: He can go even as an ambassador.

SHRI S. RANGANATHAN: At the time when I had no responsibility I used to query the propriety of those things. But I would not do so today. I myself feel that the Auditor-General, if he has to maintain his position of independence and integrity, even after retirement he has to keep himself free from want. One can argue that Gandhiji used to say that Rs. 500 was more than adequate. Though I am quite sure Gandhiji himself used

to appreciate what Mrs. Sarojini Naidu used to say, namely, "How much does it cost to keep him in poverty?" I myself think at least to put the Auditor-General on a par with a judge of the Supreme Court in the matter of salary and pension would be a very desirable thing. But, as I said, I feel somewhat delicate about this, and so I am quite willing to say that I do not want to benefit by any betterment which may come about.

SHRI UMANATH: Section 10 permits the separation of audit and accounts by the President or the Governor in consultation with the Auditor-General, which means despite opposition—on merits and not on personal consideration—if the Auditor-General stiffly opposes that such and such a separation is wrong, the clause permits the separation.

In this connection, I would like to just quote the comments made by the Accountant-General, Posts and Telegraphs, when telecommunication separation was effected. The salient point referred to in the AG, P & T's comments is as follows:

"In the event of a complete separation of accounts from audit, the staff under both audit and accounts is bound to increase resulting in much extra expenditure, and in this connection, I may also point out that when bifurcation of audit and accounts was effected some-time back in the education and rehabilitation departments of the Government of West Bengal as an experiment, after bifurcation, the strength of the staff rose by nearly three times as much as what was there in the case of the combined audit and accounts, and the expenditure rose by a little over four times."

So, on the conclusion given by the AG, P&T, ultimately it was given up. Other points have also been made by

him. What I would like to know is, whether you agree with this view and, if so, whether the suggestion will be acceptable, namely that such a separation should not be left as it is in the clause mentioned but such a separation cannot be made unless approved by Parliament? You can be relieved of some of the accounting work and other things, if Parliament approves of it.

SHRI S. RANGANATHAN: On the merits of the case, my view is that there is no virtue in the separation. The popular impression is that the combination of accounting and auditing functions somehow impairs the independence of audit and therefore detracts from its value. I think this is a misconception, because what the Accountants General do is only the final compilation, and they are not really maintaining the initial accounts. From my experience in this post, which confirms my previous view, what I can say is that if you have this compilation with you, you are in a better position to know the areas in which mistakes are likely to occur and it acts as an aid to audit rather than otherwise.

I am aware that some of my predecessors started with the theory of separation very strongly, but later on withdrew from that position after some experience. But fortunately for me, I never had to take that stand originally and retract because of my knowledge acquired by contract with some of my predecessors although I was not on their side of the offence at that time. I proceeded from the beginning with the view that there is no virtue in the separation. The cost factor is there, and it is bound to be more expensive. Whether it is three or four times, one cannot say, but there is bound to be considerably more expenditure if you separate the accounts from audit.

There is one other difficulty today; because of audit being with the Centre and as the compilation is also under the general control and superin-

tendence of the Auditor-General, there are certain advantages in the type of financial subvention which the Centre gives to the States. If you separate audit and accounts completely, it would be very difficult to justify the expenditure on maintaining the State accounts directly out of the Central budget. This is a risk which is inherent in the separation and I think many States may not be willing or unduly eager to take over the accounting function partly because of the expenditure; although some people have told me that this would give them so much more patronage in the matter of making appointments. These are rival considerations which one has to take into account.

But so far as the provision in the Act is concerned,—that the Government, that is, the President in the last resort, after consulting the Auditor-General, can take whatever decision he likes—I do not know whether I can think in terms of asking for a veto for the Auditor-General or saying that there must be a special parliamentary resolution or approval for special items of accounts which are taken away from the Auditor-General's account-keeping functions. My reason for saying it is this: When an executive government takes a decision to take away accounts in regard to a particular department from the Auditor-General's purview, and that Government is ex-hypothesis presumed to have a majority in the legislature. If they want to take it away, they can take it away. So that, nothing much is gained by insisting on these things going to a Parliamentary Committee.

MR. CHAIRMAN: But that may act as a deterrent.

SHRI S. RANGANATHAN: "The Auditor-General does not agree; nevertheless I want to take it away", this kind of conflict between the Auditor-General and the Executive

and the Legislature we have to avoid in the interests of long-term functioning of these institutions. As I said in the case of the budget, why should we assume that the executive represented by the government would be so unreasonable that even if the Auditor-General has got some valid objection to the separation of accounts in a particular department they will insist on separation?

Recently, I had some experience in connection with the tele-communications accounts. At first I did not feel inclined to let them have this separation. But, then the kind of development which they were envisaging in the tele-communications department seemed to be almost impossible if the accounting functions were continued on the old basis.

SHRI UMANATH: Was it because of the condition of the World Bank for the loan?

SHRI S. RANGANATHAN: It was not a condition by the World Bank. The World Bank is far too seasoned to put it down that unless you agree to this they will not give the loan.

SHRI UMANATH: They will not put it in so many words.

MR. CHAIRMAN: Is it because they are following a different system?

SHRI S. RANGANATHAN: They have a different system in their own place. In the United Kingdom also they have a different system. But they work on certain hypothetical principles. They feel that our system is not working as efficiently as management accounts should work. As an Administrative Secretary I have felt this difficulty. Every year round about October/November when you would like to know how much you have spent it takes a little longer to get the report from the Accountant-

General and your own departmental book-keeper does not feel confident about telling you how much we have spent out of a grant without verifying from the Accountant-General. I have felt for many years that if only the Accountant-General and the administrative Secretary could work with some larger degree of co-operation and coordination there will be nothing to be gained by this separation which the present system cannot give you. But it takes a man who has actually worked it to believe that this can be done. When the World Bank experts who come to assist a project which you want to be helped by them, if they are not able to appreciate that the accounting need not be separated if you want to watch the efficiency of performance, I am not surprised. In our own country people who have grown with this kind of system, they themselves are not able to put their finger on the spot and say this is the weak spot and if this spot is strengthened the existing system can be as effective as the old system. So, whether it is due to ignorance or inability to appreciate a particular system that has developed in this country, this prejudice continues. But if you think you must separate, I do not think I shall be losing very much in agreeing to it in the last resort. I will only say "I am agreeable to it, if you have considered this aspect." If afterwards they decide to take it away from the accounts department and make it a separate accounting wing of the P&T, I do not feel there is any point of principle involved in it. But if they were to do it for the entire field of accounts the position would be difficult.

As you know, for many years the railway accounts were separate. The Defence accounts are compiled by them. These are the two units where the accounts are separate. Then, partly the accounts of Works, Housing Ministry, Rehabilitation and Food have been separated. That was started as an experiment. I do not think

that experiment has proved that it is a great success. At any rate, there are no advantages commensurate with the additional expenditure.

It is for the government to make up their minds whether to scrap this and give it back to the old system or try it in others also. If the Government of India, after considering the additional expenditure involved, feels there should be more and more of separation I do not think it is a matter on which I should stick to my views as a matter of prestige.

MR. CHAIRMAN: You are keeping accounts for the States also. After the linguistic division of States the States will start keeping their accounts in their own language. Would you find any difficulty in doing that?

SHI S. RANGANATHAN: I shall have a great deal of difficulty. I have been having discussions with both Finance and Home Ministries on this question. So far I have persuaded the State Governments not to rule out the bilingual headings in the accounts columns. In fact, to my regret, in some areas they use the local numerals which leads to a certain amount of confusion. But if I were to say that I would not recognise those numerals and that they must use international numerals I would only be precipitating a crisis for no purpose.

In fact, I have difficulties even about my own reports. There are States in which an English report would not be placed on the Table of the House. They say "produce a Hindi version; then we shall lay it on the Table". It is not possible for me to produce a Hindi report. I know a smattering of Hindi but I cannot really take the responsibility of producing a report in Hindi. But I have now arrived at a working arrangement in that I produce my report first in English and the Home Ministry has kindly agreed to have it translated by the Translation Cell

and the head of the Translation Cell certifies that the English and Hindi versions are the same. On the strength of that certificate I am prepared to certify the Hindi report and sign my name also in Hindi. This is so far as Hindi States are concerned. But if a similar thing were to be demanded by the other States then it will become a serious problem. It is all right for me that I may be able to sign my name in Tamil or at a pinch in Gujarati, because I just learnt those scripts; but I cannot really take up the responsibility of knowing 14 or 15 languages to be able to write a whole report in Hindi, or even genuinely take on the responsibility for certifying that the report is what I intend it to be.

So, these are the problems which I am facing. So far I am glad to say that the Government of India are taking a reasonable view. Now some of the forms are to be printed in Hindi and English. If these forms have to be used in Madras—I am not casting any aspersion on any particular State; I come from that State and I know their feelings—I have no doubt that my office would be set on fire. They will say: if you are using Hindi and English, why not Tamil also, why not make it trilingual. They may even say it shall be only English and Tamil. These are practical problems. Perhaps, they will not come to a head during my tenure.

SHRI UMANATH: Coming to disparity in scales between your cadre and the Central Secretariat cadre, you have given the example of SAS. In this connection, may I point out higher than the Secretariat scale, of your department were a little higher than the Secretariat scale, even at that time your predecessor in office had mentioned that he is doubtful if these scales will prove suitable for your office. Later, Mr. Narahari Rao went a step further in January 1949 and stated that if the present scales were continued for Subordinate Accounts Officers they

will all go to other posts where they will get much more. Would you accept the suggestion that the Indian Audit & Accounts Department should be treated as an independent specialised technical department whose pay scales and other conditions of service would be decided by a parliamentary committee?

SHRI S. RANGANATHAN: I venture to submit that a parliamentary committee may not be an appropriate mechanism for going into this question. There is going to be a Pay Commission and whatever should be stated in favour should be stated by the Auditor-General. The Finance Ministry will certainly give their views and their own comparative assessment of the different grades in the Audit Department. Then the Pay Commission should assess the relative scope of work by the different grades both in the audit and other departments and then come to its own finding.

For example, while the Auditor-General's office itself is possibly equated to the Secretariat establishment, the office of the Accountant-General is treated as a subordinate office; not even as an attached office but as subordinate office. In the attached offices the scales are generally on par with those of the Secretariat; the subordinate office scales are lower.

The question is whether a LDC in the CPWD should be paid on the same basis as a LDC in the office of the Accountant-General. As I suggested earlier, the question could possibly be solved by saying that all the clerks in the office of the Accountant-General should be UDC and not LDC. It is much more easy to tackle the question that way than call him as LDC and still pay him something different. If you have in all 100 clerks in the CPWD, only 10 of them would be UDCs whereas in the AG's office 80 of them could be

UDCs. I think it is better to deal with the problem on that basis rather than saying that an LDC in the AG's office will get a higher pay than an LDC in the CPWD.

MR. CHAIRMAN: I think the proportion of UDCs has been increased by the Finance Ministry.

SHRI S. RANGANATHAN: In my office also during the last three years of my tenure and towards the end of the last two years of my predecessor the tendency has been to increase the number of UDCs as compared to LDCs. But even here there is one difficulty. There are certain types of work for which a UDC who is a graduate will be a misfit. For example, for entering figures mechanically in a ledger, if you put in a graduate he will be fed up in two years and he would like to quit. It is much better to have a matriculate to do that work. So, it really depends upon the assessment of work that a particular person discharges.

SHRI UMANATH: You have stated that in the event of difference of opinion on the budget proposals between your department and the Finance Ministry there is a convention that the C&AG and the Finance Minister must discuss it among themselves. Suppose you have serious difference of opinion with the Finance Minister, if the Finance Minister is not prepared to change his stand you may prefer to quit rather than pursue the point. In that way you will solve your personal problem but not the problem which you have raised and thereby the country may lose. Take the case of advance increments to your LDCs and SA officers. Your proposal was turned down by the Finance Ministry. If on such an issue you decide to quit then the problem will suffer. I find from the evasive replies in the earlier evidence that there is hesitation on the part of the C&AG to meet the Finance Minister to tackle the problem by direct talks. What is your

objection to such basic and fundamental differences being tackled by a parliamentary committee?

SHRI S. RANGANATHAN: The question whether some particular grade of people should get two advance increments or four advance increments when they come from one grade to another or when they pass a particular test, I would not consider this as a matter in which the Auditor-General would be justified in offering to resign. If he takes that attitude, then I would take it that he is probably working himself up to be a labour leader on retirement. Suppose a proposal is made and it is turned down. In fact, I do not myself like the expression "turned down". When I used to be in the Finance Ministry I never used to write that a proposal is turned down; or "the Finance Ministry does not agree to this proposal" I would say "the Finance Ministry would advise that this proposal may be dropped". In my own department I have asked them not use this kind of language. You do not lose anything if you say "we would request you to agree to this". Why do you always want to adopt an attitude of belligerency? If the Finance Minister does send for me and I discuss with him and he says "look, if I give it to your department, I have to treat not only your thousand people but another six thousand people on this basis and my total expenditure will come up to this extent; do you think it is fair?" then I may say "well, on that consideration, I would not press this". Then, the fact that I had originally made the proposal does not lose its justification nor my accepting the other argument of the repercussion on other Ministries or establishments take away my prestige.

The two instances which my hon. friend has referred to are. I would submit, cases where eventually the view of the Finance Ministry should be allowed to prevail, unless of course the Finance Ministry has given a wrong

picture of the case to the Finance Minister. After all, the Finance Minister cannot be expected to have everything at his finger tips. In fact, the Auditor-General is better provided with data because his own Accountant-General's office will give him instances of similar advance increments that are being given. In spite of those things, if I have put forward a case and the Finance Minister says "look, you have not considered its repercussion on other departments; so, please do not press it" and if I withdraw that proposal I do not see anything wrong in it.

A proposal has been made of a parliamentary committee to consider such problems. What will be the practical consequence? You are shifting the responsibility to resign from the Auditor-General to the Finance Minister. Suppose the Auditor-General and the Finance Minister do not see eye to eye on a problem and the parliamentary committee upholds the stand of the Auditor-General. The Finance Minister will immediately say "with this increase in expenditure, I cannot prepare the budget; you ask somebody else to prepare it. This will be the natural consequences of this kind of a mechanism. I do not think, it will be a healthy practice to start.

MR. CHAIRMAN: Generally, you think, it is due to the repercussions that such demands would have.

SHRI S. RANGANATHAN: Most often, except in the case of higher posts where the repercussions are comparatively limited, in the case of ministerial posts it is not the quantum of the increase that really matters but the large number of people who are affected by that increase. But once you have accepted the last Pay Commissions fixation of pay scales, the question of giving one or two advance increments will not materially affect it. Quite often I have succeeded in getting an advance increment for people who pass a special test. I am only submitting that it is not an issue which

I can consider of sufficient importance or magnitude which would justify either my becoming truculent or my suggesting that a parliamentary committee is a remedy.

SHRI UMANATH: When you discuss the budget, such issues might arise which you consider of sufficient and grave importance. If you cannot settle those differences with the Finance Ministry, should they not go to a parliamentary committee?

SHRI S. RANGANATHAN: It will certainly go before the full Cabinet if I feel sufficiently strong about it. But suppose my budget needs a 20 per cent increase if I have to discharge my responsibilities and the Finance Minister says that he cannot agree to more than 10 per cent increase in spite of discussions; then a much more prudent course for the Auditor-General would be to mention it in his report that within the finance placed at his disposal he has not been able to discharge his responsibility fully. I would rather leave it to the Public Accounts Committee to make a recommendation to Parliament that the Audit Department has been starved and therefore the CAG has not been able to fulfil his responsibility either to his own satisfaction or to their satisfaction. If it is referred to a parliamentary committee, it will be taking the quarrel to a slightly higher and political plane and if the Finance Minister has a majority in the House, nothing that I say need deter him by taking it to the parliamentary committee.

MR. CHAIRMAN: We were thinking that your department should be on par with the judiciary but some people complain that then you will become an autocrat.

SHRI S. RANGANATHAN: The difficulty arises because of the combination of maintaining accounts and audit. The audit function only is protected under the Constitution. The expenditure of the CAG's office is charged but the expenditure on Ac-

countants General and their staff etc. is voted. The very fact that there is this distinction would suggest that it has never been the intention—I think rightly so—that the Auditor-General should have complete freedom to demand what he wants in respect of the whole of his establishment. If I want something for my own office or certain staff which I can relate specifically to the audit function, I doubt whether the Finance Minister would ever say “no” to it. If you demarcate the area, isolate the functions and say that the extra expenditure is related to the particular audit function, that is, if you pin-point the demand and its refusal, I think any Public Accounts Committee would support the Auditor-General.

SHRI M. ANANDAM: In your memorandum you have made out a very strong case for the audit of accounts of undertakings where the Government holds less than 50 per cent shares and you gave certain arguments. Those arguments are quite notional; I do not think, they have any basis. The chartered accountant does the audit even in those cases just as he does the audit in the case of Government companies, the only difference being that in the case of Government companies the CAG appoints the auditor whereas in the other cases the shareholders appoint the auditor.

Would it do if we amend the Company Law and say that the Chartered Accountant should not only make the proprietary audit but also the efficiency audit? We may define efficiency audit's and prescribe conditions for it. What would be the position?

If we make the appointment of a chartered accountant to be held for a number of years, is not independence of audit assured?

We are in the midst of our five-year plans and we attach as much

importance to private sector undertakings as to public sector undertakings. Will it not be fair if the CAG appoints the auditors even for the private sector undertakings so that the appointment of an auditor is removed from the purview of the shareholders? What is your opinion on these three points?

SHRI S. S. KOTHARI: There are 30,000 companies.

SHRI S. RANGANATHAN: The appointment of auditors for private sector companies being dependent on the Auditor-General's recommendation, I feel, would not be a practical proposition. I think, it also cuts across the entire concept of our private corporate sector. There are various kinds of controls which we impose on the working of the private sector but if we say that we shall appoint the auditors, it is quite possible that the companies as also the professional auditors, both, may treat it as a serious inroad into their freedom. I do not know whether it would be possible for Government to take the position that unless they take in hand the appointment of auditors on the advice of the Auditor-General, the mismanagement of private sector companies is not brought to light. Personally, my own view is that Government will not be able to sustain that position because it cuts at the very root of recognising an institute which controls the profession of accountancy. So, Parliament having given them, so to say, a charter to control their own profession and their conduct, to say, “We do not believe you are able to observe these codes of conduct and, therefore, we want to take over the appointments” may be a difficult thing to justify. Even if Government does take that line and by legislation enforce it—I have no doubt about that—it will not be a feasible proposition for the Auditor-General to make recommendations in regard to the appointment of every single auditor.

SHRI M. ANANDAM: Suppose it is in respect of companies of Rs. 25 lakhs share capital.

SHRI S. RANGANATHAN: I do not know whether in today's context Rs. 25 lakhs is any high ceiling. To-day I read in the newspaper that about licensing, they are thinking in terms of Rs. 5 crores ceiling. I agree you can make some such provision if you limit it to certain large-scale companies. I would not like to actually mention any particular level because this will depend on the growth of companies which has taken place. If your intention is to limit it to public limited companies and not bother about private companies, then, you will be setting in force a movement directly opposite to what Government, I think, has been doing now to encourage private companies getting converted into public companies by giving some concessions to public companies. This will reverse the trend. That is one aspect that is to be considered.

In regard to limiting the tenure of auditors to three years or some such period, I doubt, again, whether it would not be an unjustifiable inroad into the freedom of the private sector. A private sector man will say, "If I do not have a right to appoint an auditor whose code of conduct is governed by an autonomous institute, what is the use of my putting in my money and having a private sector company at all?". So, so far as I am personally concerned, I do not think either of these two things are really necessary. Of course, as I said, for very large companies; or companies which carry on certain types of business, say, there is a company which manufactures certain items of defence importance, I can understand Government wanting to say, "We shall appoint auditors for your company."

This leaves the very first question which you asked as to whether

chartered accountants could not be required by amending the Company Law to look into the aspects of propriety and efficiency. My own feeling is that if the other two aspects which we discussed earlier are conceded, unless, in other words, you are going to enforce governmental appointment of auditors and Government restricts the terms, the tenure of appointments, it would be impossible to expect chartered accountants who are appointed on the basis of a shareholders' vote (who are governed, in turn, by the Directors holdings or the holdings of their friends) to do that. The appointment of chartered accountants will be in jeopardy if chartered accountants were to go very much beyond what he does today. Even today, there is no provision like this. I have attempted to persuade chartered accountants to take the view that there is no such prohibition even today from mentioning in their reports to the Board certain aspects which are really propriety or efficiency aspects. But I doubt it very much whether they would be persuaded to do anything more than what they do today. If you put it in the statute, they may try to do so. But I feel it will not be very satisfactory.

SHRI M. ANANDAM: My second question is about the audit of transactions involving foreign exchange. As it is, you have the power under clause 18 of the Bill. The only difficulty appears to be about the definition of "accounts". The Bill does not contain a comprehensive definition of "accounts". The accounts have been defined only in relation to commercial undertakings. But if the definition is also made to include transactions of the Government involving foreign exchange, probably, that will cover those transactions also and the C.A.G. will have the power to examine the accounts involving foreign exchange.

SHRI S. RANGANATHAN: It is a legal question. But I have my

doubts. If the foreign exchange is really accounted for in the books of the Reserve Bank, then, I have grave doubts as to whether I can stretch my jurisdiction to cover that.

SHRI M. ANANDAM: But the permit is given by the Ministry.

SHRI S. RANGANATHAN: I may be able to query the Ministry giving an import permit. But, after all, the Reserve Bank is an autonomous body. For the Government to get from the Reserve Bank individual details of every foreign exchange transaction which I wish to go into will not work in practice. So, if foreign exchange has to be brought within the purview of the Auditor-General, I would be happier if it is spelt out in so many words rather than being left to be stretched from the existing wording.

SHRI M. ANANDAM: Thirdly, you have made a very elaborate case for auditing the accounts of the negotiated contracts. While I agree with a number of points made here, your exclusion of foreign contractors from the purview of the audit brings in a discrimination and, probably, the entire matter will be completely struck off the statute. It is a discrimination which may be challenged in the court of law.

SHRI S. RANGANATHAN: I have a feeling, if this kind of provision has passed muster in the United States—they must have had a case law where it must have been queried—that will be all right. So far, I have not come across anybody questioning the Auditor-General's powers in the United States, limited though they are to what you may call domestic contractors. I will be prepared to take a risk and not bring within the purview of Auditor-General's ambit the power to ask a foreign national to produce his books to me. If Government enters into a contract with him, unless there is an Indian nexus, they can impose any

condition on the Indian agent. The Government can say, "We will give you the contract if you accept this condition that relevant books will have to be produced." But I cannot force it on a foreigner. Even if it is a negotiated contract, all that you can do is to provide a penalty clause for the breach of the condition. Even then, supposing in the course of the negotiation with the foreign supplier, the Government puts a condition that the books will be amenable to my audit, when I demand the books, he may refuse to give me the books, and if you put in a penalty provision, one can invoke the penalty provision. But that will not produce the books to me. In practice, it is not worthrinking that kind of a provision.

SHRI M. ANANDAM: As my hon. friend Mr. Kothari suggested, is it not possible that before an agreement is entered into, the agreement is sent to the C.A.G. for his prior approval and finalisation?

SHRI S. RANGANATHAN: I did explain that. I think, it is not properly the function of audit at that stage. In certain large matters, the Government does consult the Auditor General for an advisory opinion which I give. But if every contract is to be scrutinised by the audit before it is signed, then my Department will have to be expanded considerably.

MR. CHAIRMAN: It may cause delay also.

SHRI S. RANGANATHAN: Yes, it may cause delay also.

SHRI M. ANANDAM: Under the Income-tax Act, you have cost audit. You think it necessary to have it again, another type of scrutiny, by the C & AG?

SHRI S. RANGANATHAN: In practice, if it is an industry in which cost audit has been enforced, the Auditor-General can be satisfied by accepting the cost audit report, which will be produced by qualified Cost Accountants. But he should have a right to ask for them.

The only other thing which I would like to mention before the Committee is about the structure of the Audit Department. I do not consider the Auditor-General actually as a part of the Audit Department and so the prospects for promotion within the Audit Department must, I think, be reasonable enough to sustain the cadre as a whole. Today, I fear it is not so. For example, in the whole of the Audit Department, there is not even one post which will be equivalent to that of a Secretary to the Government. There is that kind of imbalance, or comparative imbalance, which detracts from the structure of the cadre as a whole. This is the only point which I would like to mention.

MR. CHAIRMAN: Thank you.

(The witnesses then withdrew)

II. All India Non-Gazetted Audit and Accounts Association, New Delhi.

Spokesmen:

(1) **Shri A. V. Venkataraman,** Secretary General;

(2) **Shri S. K. Vyas,** Additional, Secretary General.

(The witnesses were called in and they took their seat)

MR. CHAIRMAN: Mr. Vyas, you had your say in the morning. Some of the hon. Members would like to ask you questions.

SHRI UMANATH: I would like to know whether you will accept the position that so far as the status and other things in the Audit Department are concerned, this Service must be treated as a separate and independent department and their service conditions and status must be decided by a Committee of Parliament. What is your opinion on that?

SHRI S. K. VYAS: Now that we have before this Bill, in which the Parliament is going to prescribe the powers, etc., regarding the C&AG, it should be specifically ensured that the independent status of the Auditor General is preserved. In our day to day business, we have to go various offices and there we have to audit the accounts. More often than not, we are also faced with these difficulties. I will give an example. Our field parties are composed of one SAS Accountant, who is a non-gazetted Class III official, and two auditors who are in the cadre of UDCs. They go and do the work there and for all practical purposes they finalise the audit report. Although in the Central Secretariat an Assistant carries a scale a little less than an SAS accountant, he is a non-gazetted employee in Class II, and not Class III. It is a very anomalous position that a person who is carrying a little lesser pay is treated as Class II official, whereas a person who is carrying a higher scale has been given Class III. The non-gazetted employees, for all practical purposes, examine these accounts and so many times we find that Class I officer in charge of that office refuses even to discuss their report, which is necessary before the report is finalized. That has happened many times.

So, if there is an opportunity to go into this question, all these questions are also gone into, and the best form would be for the Parliamentary Committee to do it, because ultimately all that we are doing we are doing on behalf of the Parliament and our

results of audit are ultimately to go to the Parliament. So we very much welcome if it is suggested that a Parliamentary Committee will also go into this question and because we have been treated as one of the subordinate offices, though we are not a subordinate office of the Ministry.

MR. CHAIRMAN: There are two other aspects. One is the administrative aspect, and your pay scales. It was said that your pay scales now would be looked into by the Pay Commission is coming. Are you asking for a Parliamentary Committee for administrative difficulties or for the pay scales?

SHRI S. K. VYAS: It is just a connected issue. There have been two occasions on which Pay Commissions have sat, and at both these two occasions, because of the reasons already given, we have been bracketed with subordinate offices and attached offices, and because of our designations being what they are, UDCs and LDCs, we have been bracketed with the general scales, and no attempt has been made at examining the adequacy or otherwise of the entire wage structure of the Indian Audit & Accounts Deptt.

MR. CHAIRMAN: Pay Commission is going to do this job. You say some arbitration should be there. There is this Pay Commission. Parliament cannot go into these things. No doubt some Members will be there on the Pay Commission. That is the idea last time also.

SHRI UMANATH: They say, present equations have resulted in certain imbalances. With the pay commission you can canvass how this equations have resulted in imbalances in salary scales and all that and you can take it up with the Pay Commission to see ways and means of removing the imbalances. This situa-

tion could be altered. Do you think it can't be removed by the Pay Commission? If so, what are the reasons?

SHRI S. K. VYAS: Two Pay Commissions have already come into being and this has not been done. From the day of inception we have clamoured and demanded that we should be placed on the same Central Secretariat level so far as wages are concerned. First Pay Commission has gone to the extent of recording that this disparity between audit employee and CSS employee is not understood—but beyond this recommendation, nothing was done. That is what we find. We are designated as UDCs when we are not UDCs.

MR. CHAIRMAN: They give authority without pay.

SHRI S. K. VYAS: UDC is mechanical clerk; assistant clerk is intelligent clerk.

MR. CHAIRMAN: UDC must be a graduate.

SHRI S. K. VYAS: He used to be graduate so far as Indian Audit side is concerned. That is right from 1909. He is always a graduate. More often than not he is often a postgraduate or double graduate.

MR. CHAIRMAN: Was your case represented properly before 1st Pay Commission?

SHRI S. K. VYAS: Yes.

MR. CHAIRMAN: Are you sure? So far as defence employees are concerned, they said, it is not properly represented; they don't make any recommendations.

SHRI S. K. VYAS: About employees side, it was represented and

so far as 1st Pay Commission is concerned they did not make any recommendation. They made a very low recommendation in spite of the fact that the authorities had gone on record to say that they are no less than central secretariat employees if not higher. But when it came to really recommending something, it was not done for reasons which we don't know.

MR. CHAIRMAN: Reason is, it will have repercussions.

SHRI S. K. VYAS: It was never done.

SHRI UMANATH: Repeatedly it is being said that this will have repercussions on other Government Departments and Ministries. What do you say?

SHRI A. V. VENKATARAMAN: Even Audit General said it will have repercussions in other cases. I can give the instance of national federation P&T employees. The post is 110—240 and lower selection grade post is 210-320. We took up with respective Ministry which took up with Finance Ministry. Finance Ministry agreed for upward revision of this maximum limit of 320 to 350. In other departments they pay scale of UDCs is 130—300. When we wanted upward revision, when it was considered in the P. & T. the A. G. himself in the departmental council pointed out that there is general ban on the revision of payscales and so this matter cannot even be discussed in the departmental council.

MR. CHAIRMAN: When was it?

SHRI A. V. VENKATARAMAN: Last year.

MR. CHAIRMAN: There was a virtual ban.

SHR S. K. VYAS: More than 3 years ban is continuing. But what has happened? We find revision has taken place in Central Sectt. Steno-

graphers' grade. In Central Excise also. Also with regard to the P & T with regard to the selection grade there on the executive side. Also, in respect of the Vice-principals of the higher-secondary schools in Delhi. This was done in the case of defence. Even in respect of Addl. Deputy Comptroller and other posts the up-grading of posts was done. With regard to the non-gazetted staff the audit administration pointed out that it cannot be taken up, because there was a general ban.

SHRI A. V. VENKATARAMAN: Ours had been de-recognised for a long time and this has been recognised only one month back. Ours was the last to be recognised. That tradition is one thing. Just as the Finance Ministry and others feel that the audit has become insular, the administrative ministries also have become insular in regard to this issue. If you see how many people are recruited and how many have resigned, you will find that particularly in cities like Bombay, Calcutta and Madras where the employment opportunities are great in public corporations and even in private sectors, there have been large scale resignations from Audit Department to go there.

SHRI S. K. VYAS: I shall give you only one example. In the Audit Department there are U.D.Cs posts. There is a very abnormal increase are long. And there has always been some one being given an appointment order. This is the tradition. As a result of this we find newcomers here. Our Association has to deal with newcomers. And every month we find a new membership in our association. This is happening only because the number of posts is not being created speedily. We find that in the first year of their service or even in the second or third year of their service there is a number of resignations from Audit Department. And they seek for better avenue in other departments. This is what is happening.

And many of our colleagues are now in the Central Secretariat.

SHRI VASUDEVAN NAIR: Can you give us some figures for the last two or three years?

SHRI S. K. VYAS: That has never been possible for us to give in spite of our best efforts.

MR. CHAIRMAN: By the time the Pay Commission begins to function since your Union is now recognised I hope you should be able to collect the data for that period on this point.

SHRI S. K. VYAS: No, Sir, I would like to make two more points. It is a bit difficult to pass the S.A.S. Examination. There are persons who have failed in the S.A.S. Accountants Examination are able to pass the I.A.S. Examination. At one time it was considered that the persons who have passed this particular examination would not go anywhere. Now we find that among the S.A.S. Accountants there is a very big number of them resigning their posts and going to either the Corporations or to the other private enterprises. They have started leaving our department. Earlier it used to be like this. They used to hold gazetted status. Now even after five years of service they have no promotional avenues and because of their stagnation they go to the Corporations or even to other private enterprises. If figures are given to the Committee that will be a very revealing thing. We have already explained about our difficulties.

MR. CHAIRMAN: We shall ask for these figures.

SHRI A. V. VENKATARAMAN: Even after passing the SAS Examination our people have been waiting for promotions for nearly ten to eleven years. This is the backbone of the Audit. I may mention that after having failed repeatedly in the SAS Examination our people have been able to pass the Class I Officers'

Examination and are holding the Class I posts. The fact of the matter is that the people having passed this examination are waiting for nearly ten to 15 years in order to get their promotion in our Audit Department.

MR. CHAIRMAN: I think this is an issue to be brought up before the Pay Commission.

SHRI M. ANANDAM: Don't you have any weightage for having passed this examination by way of any advance increments?

SHRI S. K. VYAS: No Sir.

SHRI A. V. VENKATARAMAN: Some of our people were drafted for the Food Department on deputation as Accountants in the corresponding scales. Now this department has become Food Corporation of India. You will be surprised to know that this Corporation is constituted by an Act of Parliament with Rs. 100 crores of capital provided by Parliament. Practically the Food Corporation has become a Department of the Government of India by concept. What happened was that after the formation of Food Corporation, the employees had switched over to Food Corporation their pay scales and terms and conditions of service having been changed completely. And there is a complete upgradation for the L.D.Cs in their pay-scales from Rs. 110—180 to Rs. 120-10-240. Even the increment is much more than what the supervisory staff is getting.

MR. CHAIRMAN: So you are a training school for supplying people.

SHRI A. V. VENKATARAMAN: Well, that is so. Now our people having gone there have been asked to exercise their option to be absorbed here. And most of them are prepared to exercise this option but our department is not prepared to relieve them. That is the situation.

SHRI UMANATH: As regards detection of irregularities—improprieties—and various other things

which are contained in the Audit Report please tell us as to the comparative contributions made by various cadres in your Department.

SHRI S. K. VYAS: As I said earlier, in the Central Audit we do not get much of the material which ultimately leads to the draft para. It is only in our special audit where we get such a material. An audit party is deputed once in six months to a particular office which is a spending department. There they go into the accounts. Very recently we have started examining cases on the revenue side income-tax and customs—as well as sales tax. The party goes through the entire papers and the transaction. So far as Central Audit is concerned we received only the vouchers—very few documents with vouchers—which are essential to find out as to how the transactions arise. All the other relevant materials relating to that transaction can only be known when we go for an on-the-spot audit. There the entire job is done by two auditors and a superintendent. Here an S.A.S. Accountant who is in charge of the party is a non-gazetted officer. These accountants are allotted independent duties. The Superintendents will do a certain prescribed duty and the auditors will do the other prescribed duties. Both of them are being allotted the work independently. And after the work is over, he will submit a para to the in-charge of the party who, in turn, would examine to see whether the para is worth retention or it may be dropped. Then a memo is issued to the department containing a gist of that para. We consider as to how a particular transaction could be challenged on grounds of improprieties or for want of sanction etc. The Head of the Department will give a reply to that Memo. In the light of that reply it will be decided whether it should be included in the Report. It is mostly at this stage when the Report is almost ready that sometimes a gazetted officer of the rank of Class II,—that is, who is promoted from among SAS Accountants on merit—

cum-seniority basis—will go through the entire ready material and mostly his job is to drop some item, because when the final things come to the Public Accounts Committee, they should not come in very big, large number, and therefore his job is to curtail something, to settle something. So it is said that he has settled on the spot, but whether it is actually settled or not is a matter on which there can be two opinions.

MR. CHAIRMAN: How is it?

SHRI S. K. VYAS: It is through discussions. Then this final report is ready and this report is discussed officially. This is also a ritual in the Department. The Head of the Office, or the in-charge of the party, is not there, and the officer concerned will also sign this report, saying "Read and Facts Verified". Then this report will go to the Head Office. There it will be further vetted, and in the final stage of vetting it will be done again by the supervisory staff, i.e. non-gazetted, SAS Accountant. He will submit a Review Note upon that draft Report and this Review Note will be gone through by the Branch Officer there, who is a Class II officer, and on the recommendation of the Branch Officer or Deputy Accountant General who is a Class I Officer, belonging to I & AS Service, it will be approved. When the preliminary is received, it will be examined whether the para is worth taking into the Audit Report for presentation before the Parliament. This is how this process goes on. And, even in the final analysis of selecting paras, there is a Section which selects these paras out of these reports, and that Section is also manned by senior auditors. So, from the very beginning—from detection till final selection—the whole work is done by the non-gazetted category of staff and who alone are, to be frank, authorised, because of their technical know how, to assess which para should be given particular importance.

So far as our I & AS community is concerned, they come from the general

UPSC examination, and when they function in the Department, they grow and they also learn something of our technical know-how. But mostly that depends upon a particular individual's grasping power and aptitude and so many other things. But mostly we have found and we have begun to feel that it would have been better if in this Class I Service there was a better representation of the technical persons than the general amateurs. And we have been demanding this particularly from this very angle, because as subordinate SAS it may not be possible for every SAS accountant to be very frank with a Deputy Accountant General and say, 'Sir, your judgment here appears to be not very correct'. It may not be possible, and therefore there must be a good sprinkling of that. We have therefore been demanding that 50 per cent of these posts, by virtue of the very nature of doing technical work should be reserved from among the departmental candidates . . .

SHRI UMANATH: At present, what is the percentage?

SHRI S. K. VYAS: From the departmental candidates it is only 20 per cent. That is very inadequate.

SHRI UMANATH: With regard to the chartered accountants in the public undertakings, it is their internal audit at present. A suggestion has come that it must also be brought under the C & AG. Could you tell us anything about that?

SHRI S. K. VYAS: We have also been thinking on these lines. A chartered accountant, if he is inducted into the Audit Department and functions as an employee of the Audit Department, there is no difficulty. But a chartered accountant would never agree to come to such an inadequate and low wage structure. But, in any case, because of the private Chartered Accountant, doing all the practice in the market, it will be

a harmful method of getting audit of public sector undertakings conducted, for one reason, and that reason alone is this, that now you will find that there are certain undertakings which are existing in both private as well as in the public sector—for instance, fertilizers. What is going to happen is that all the processes of cost analysis will be known to these Chartered Accountants and they will be passed on to the private sector enterprises. There are always certain processes through which private sector can benefit. So this should not be done.

In France, there is a system that a report on the public sector undertakings which contains any such thing will not be disclosed. In France, there is statutory audit of the public sector undertakings. But they have realised this danger, and therefore, they have said that while sending reports to the Parliament, they will compile two types of reports: one report will contain all the information regarding cost analysis; that will be sent only to the Ministry concerned and that will not be released out. Even in respect of Defence in UK, there is a system of not rendering a report regarding certain transactions of Defence before the Parliament for open discussion, because there is the danger of divulging secret information. As annual report which will be submitted only to the Ministry and a biennial report which will contain a general report upon the irregularities, omissions, commissions and all that. We feel that this system of audit through chartered accountants is fraught with this danger and for this reason alone this should not be there.

SHRI M. ANANDAM: I do not agree with what the witness says. While giving evidence in the morning we were told that some of these Dy. Accountants General go on deputation and when the subordinate officers go to the same Undertaking for purposes of audit they are put in an embarrassing position and not able to say what is the state of affairs of the

company and because of this they have not been able to give proper report. If that is the position either you stop this Dy. Accountant General is going on deputation or if you do not stop you say where there is a person on deputation an independent person should audit the accounts.

SHRI S. K. VYAS: In CPWD and other State PWDs a system has been evolved over years that the primary accountant and financial adviser of that division is a man who is recruited, trained and appointed by the CAP on behalf of that Division; their salaries are paid by the State Governments if it is a State PWD or by the CPWD from the CPWD budget but he remains under the administrative control of CAG and he maintains as a primary auditor an objection book which he will only show to the representative of the CAG as and when he comes. That is the system. But before he enters his objection in the objection book he ensures that he has advised the head of office against that particular action against which he is going to record objection and he also takes his signatures on that objection in token of the fact that he has so advised him and this objection is also a source from while we audit the accounts. So, we suggest a system like a system obtaining in CPWD is introduced in Corporations so that persons will be recruited, trained and deputed to the Corporation not on deputation but against those vacancies which are specified by the CAP and he will continue to have administrative control over them. This will give two benefits—one in the early rendition of accounts and secondly, there will not be temptation of 20 per cent.

SHRI A. V. VENKATARAMAN: Sir, I would like to submit the chartered accountant is not required to proprietary accountanting. In the

case of LIC and others also proprietary accounting is done by the Auditor General.

SHRI M. ANANDAM: As a matter of fact I can say—I have been a member of the Andhra Pradesh PAC—I had an occasion to go through one of the accounts certified by A.G. where in the particular year the salaries were shown only Rs. 40,000/- the turnover was Rs. 11 lakhs. In another year the wages became Rs. 3 lakhs and the turnover only Rs. 6 lakhs. If such type of defect is there it is because of the person who audits—whether he is chartered accountant or auditor. There is no term like propriety audit. Why should you make such type of distinction.

SHRI A. V. VENKATARAMAN: The relationship between public sector undertakings and Auditor General should be intimate. Now what is happening is even with regard to public sector undertakings the position of the Auditor General is similar to one when he audits the Government Departments. If that position is given to the Auditor General he can unearth all these irregularities in the public sector undertakings; he has not been given those powers in the case of the public sector undertakings. This is the position to-day. If he is given that position and power, we can definitely point out that it would be possible for the Auditor General to bring up to the PAC very many irregularities which are being committed which are not happening in the audit done by the Chartered Accountant.

MR. CHAIRMAN: I do not think there is any more question to be asked now.

Thank you very much.

(The witnesses then withdrew)

(The Committee then adjourned)

**MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969**
Monday, the 13th April, 1970 at 16.00 hours

PRESENT

Shri S. M. Joshi—Chairman.

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shri Dinkar Desai
4. Shri Nageshwar Dwivedi
5. Shri Dhuleshwar Meena
6. Shri S. N. Shukla
7. Shri Nagendra Prasad Yadav
8. Shri Prakashchand B. Sethi

Rajya Sabha

9. Shri M. Anandam
10. Shri Gurumukh Singh Musafir
11. Shri C. D. Pande
12. Shri Sundar Mani Patel
13. Shri Kalyan Roy

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. Shri A. P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

**REPRESENTATIVES OF THE MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

1. Shri A. R. Shirali, *Jt. Secretary (Budget).*
2. Shri B. Maithreyan, *Officer on Special Duty (Budget).*

SECRETARIAT

Shri S. P. Gupta—Section Officer.

WITNESSES EXAMINED

All India S. A. S. Association, New Delhi.

Spokesmen:

1. Shri K. Daniel Purushotham, *President, All India S.A.S. Association.*
2. Shri N. C. Mazumdar, *Addl. Secretary General.*
3. Shri Tej Verma, *Member—Executive.*
4. Shri P. R. Bansal, *Member—Executive.*

MR. CHAIRMAN: We welcome you, because your evidence will be very useful. Before we start our work, I would like to tell you that your evidence shall be treated as public and is liable to be published unless you specifically desire that all or any part of your evidence is to be treated as confidential. However, even if you desire that your evidence should be treated as confidential, such evidence shall be made available to the Members of Parliament. You are to take note of this.

You have submitted your memorandum. We have gone through it. Before we ask questions, you can just briefly explain your points.

SHRI K. DANIEL PURUSHOTHAM: Sir, the position that should be assigned to the CAG should be on par with the Chief Justice because he is occupying a position where he has to secure the independence of getting and discharging his duty without favour or fear. His emoluments and pay should be brought at par with the Chief Justice of India.

As regards the compilation of accounts the Administrative Reforms Commission has made a categorical recommendation and that is the advantage of having dual role of keeping and auditing of accounts. Separation of accounts from audit should be considered only by Parliament and not by the executive. That is my next submission.

As regards Section 14—the audit of loans and advances financed from Union or State revenues. Here the Government of India can grant a loan or grant to a body—I think from Sec-

tion 14 to 19 there has been a distinction between a body other than a body incorporated by an Act or Law, statutory body, Government company where Government owns a particular share, that is, 51 per cent, etc. From this distinction we could see that under Section 14 the word used is 'entirely' financed which gives a scope for manipulation. The connotation of the word 'entirely' is very wide. But if it is altered to 'substantially' the definition of the word 'substantially' must be given. What is 'substantial' in one case may not be substantial in another case.

MR. CHAIRMAN: The use of the word 'entirely' has been divided into two categories—'entirely' and 'not entirely'. For 'not entirely' there are certain provisions and for 'entirely' this is the provision.

SHRI PRAKASHCHAND B SETHI: CAG's power does provide if the recurring grant is more than Rs. 1 lakh then the CAG with the consent of the Deptt. can go and audit the accounts of that Ministry or Institution and if the non-recurring grant is more than Rs. 5 lakhs it can do so. This particular Section is to cover 'entirely' and as far as other thing is concerned it is covered either by Section 15 or by GFR. It is no use examining the accounts of each institution. Then it will be a huge task.

SHRI P. R. BANSAL: Even under the existing General Financial Rules where there is recurring expenditure of Rs. 1 lakh and non-recurring expenditure of Rs. 5 lakh CAG has got the right to audit. There the question of 'entirely' does not arise.

SHRI TEJ VERMA: Sir, may I give you an example. In a particular case Central Government gave a grant of Rs. 20,000|- for a competition—it is an institute.—It was initially given as a loan. We went there for local audit but when we went we were told that it being a loan the audit does not come in the picture. We came back. Later on we came to know that this loan had been converted into a grant. First, the loan escaped the audit and later the grant escaped audit.

SHRI PRAKASHCHAND B. SETHI: Now, if this Rs. 20,000|- becomes 'entirely' then it is covered by this.

SHRI M. ANANDAM: Section 14 completely removes all restrictions. Even if it is a small grant which becomes 'entirely' this makes it mandatory.

SHRI PURUSHOTHAM: If an authority or the body is not entirely financed by grants, the Government may give 50 lakhs of rupees and that authority might give like that 50 per cent.

SHRI M. ANANDAM: I would like to have instances which are not covered by Article 14 or 15.

SHRI PURUSHOTHAM: The Housing Board collects money from the Members of the Board. The State Government will also provide certain percentage. Grant is given by the Government. It is not substantial. We take the total outlay—partly members money and partly State Government loan. We seek other sources—L.I.C. and the Government of India. Then question arises whether it is entirely financed? If it is not entirely financed; the CAG as a matter of course cannot take up audit of that particular body simply because it is not entirely financed. If it is substantially financed, the CAG has the discretion.

SHRI M. ANANDAM: The Housing Board gets the loan from the State Government or the Central Government. The loan is granted for the particular purpose—construction of

houses. It is for the CAG to find out whether a specific purpose has been fulfilled or not. It is covered by Section 15 and it goes out of Section 14. So, I do not think there can be any instance which is not at all covered either by Article 14 or 15. It goes into one or the other.

MR. CHAIRMAN: If it is not entirely financed, it will go under 15.

SHRI M. ANANDAM: Another difficulty arises to define 'substantially' 50 lakhs may be small so far as the Institution is concerned but for the Government it may be a substantial grant.

SHRI PURUSHOTHAM: If it is covered in 15, then what is the purpose in 14.

SHRI M. ANANDAM: There must be a purpose mentioned and once the purpose is mentioned, it is covered by Section 15.

You give an example of drought, cyclone. You tell an instance where the grant is given without purpose.

There are certain cases where block grant is given to a University or something like that. It says 50 lakhs from the Consolidated Fund—recurring 50 lakhs or so far the purpose of maintenance, etc. Then it comes in 14. Family Planning is entirely financed by the Government. Then it comes in 14. It may be less than 1 lakh even.

SHRI PURUSHOTHAM: The University has own resources. It is not entirely financed by the Government. University fees, affiliations, etc., are the other sources.

SHRI M. ANANDAM: What do you say about the Family Planning?

SHRI PURUSHOTHAM: It comes from the Government. It is a limb of the Government.

Here Section 19(1) says about statutory corporations and Government Companies. The Company has been put under the Act of Parliament.

Here is distinction between Local Body or Authority and this Corporation or the Government Company.

SHRI ANANDAM: Whatever is covered by 14 is not covered by 15.

LEGISLATIVE COUNSEL: There are three stages. For example there is a Research Centre which is entirely financed from the grants by Government, that comes in 14.

Second stage is where the grant is made for a specific purpose. It comes in 15.

Where loans and advances are for other cases, they will come in 20.

In 20 we had Constitutional implication. Supposing there is a body or authority carrying on trade. Simply because some loan has been taken or advance has been made CAG has a right to look into that, that will be an unreasonable restriction to carry on the business. If Government thinks that it is a proper case for audit, CAG comes in only in that case. The fundamental right of the person to carry on trade has been protected.

SHRI PURUSHOTHAM: Audit is only a post mortem. After the event is over, we are bringing the factual position before the Parliament.

MR. CHAIRMAN: He has given you instances which are less than Rs. 1,00,000 and which are entirely financed by the Government. They are to be brought under some provision. After this happens what mischief do you think is possible? We bring in 14, 15 or 20. The scheme is such that nobody should get out of the clutches of audit.

SHRI PURUSHOTHAM: Could there not be any manipulation? They are a body who contribute 1 per cent and the Government gives 99 per cent. It is not entirely financed.

MR. CHAIRMAN: To that other Section will come.

SHRI PURUSHOTHAM: Only when Government has 51 per cent shares it becomes a Government Corporation. Here it does not become a Government concern. 99 per cent loan is being given for specific or general purpose. If it is not entirely, will the CAG be deprived of audit?

LEGISLATIVE COUNSEL: Either 14, 15 or 20 applies. Either of the three will apply.

MR. CHAIRMAN: Can you give us an instance, where somebody escapes?

SHRI M. ANANDAM: You give us one instance.

SHRI TEJ VARMA: I will give an example. There was one Yogashram in Delhi. The Ministry of Education gave some lakhs of rupees as recurring grant and some more lakhs as non-recurring grant. That Yogashram was training teachers. After some time, there was a dispute. And perhaps nothing was done. Some anonymous letter was written to the Ministry, and this has gone to the Ministry. We never knew it. Only when the Ministry came to know of it, and reported that it should be done, we took it up as a special case. Otherwise, we had nothing to do with it. When the Ministry asked us to conduct a special audit, we came to know of it.

LEGISLATIVE COUNSEL: Such cases are covered by Section 20 sub-section 2.

SHRI PURUSHOTHAM: We will have to propose. The point is that has he got the inherent right. That is exactly what we are submitting. He has to make an approach.

LEGISLATIVE COUNSEL: Why are you saying that they are overlapping? It is a question of policy whether the power should be straight away given to the Auditor General or the Government should have a say in the matter. Now, the point is whether the power should be given straight away to the Auditor General or to the President.

MR. CHAIRMAN: In section 15, the President has to be approached. If you say that President should not be approached and the Comptroller & Auditor General should have the power straight away, then the net is cast wide. All the institutions are covered if not by section 14 then by Section 15; if not by Section 15, by Section 20.

SHRI PURUSHOTHAM: Here only the difficulty comes. When it comes under Section 20, it will be very embarrassing for the C & A-G to ask and 'get no'. Therefore, the discretion is there to exercise indefinitely.

SHRI M. ANANDAM: I would suggest that instead of putting 'substantial' in Section 14 you omit the word 'specific' under Section 15. That will cover it.

MR. CHAIRMAN: You are objecting that proviso 1 to Section 15. You have not understood the proviso correctly. It is his duty to do it.

SHRI PURUSHOTHAM: No. Sir, It is Section 22.

MR. CHAIRMAN: You have no trouble about Section 15.

SHRI ANANDAM: What I felt was that instead of putting that word 'substantial' under Section 14, you omit the word 'specific' in Section 15.

MR. CHAIRMAN: Here, the question is that if the Comptroller & Auditor General does not want to do, then the President comes in. He does not order him. He only relieves him, if he satisfies the President.

SHRI P. R. BANSAL: In the ultimate analysis we have to see whether it comes under 14 or 15.

MR. CHAIRMAN: "The Comptroller & Auditor General may Propose to the Governor or the Administrator of a State or Union Territory, having a Legislative Assembly, as the case may be, that he may be authorised to undertake the audit". Here, it is all right. Your objection is only to this.

SHRI PURUSHOTHAM: Because he will have to approach and get 'no'.

MR. CHAIRMAN: As far as Section 15 is concerned, the President does not.....

SHRI P. R. BANSAL: This power by the President should not be there.

MR. CHAIRMAN: Then you are giving all the power to the Auditor General.

SHRI P. R. BANSAL: It is not, C & AG does not want. If the President considers it so, he can relieve him.

SHRI PURUSHOTHAM: Now, the proviso to Sub-Section 2. My submission is that it is a restrictive clause. My understanding of the proviso 1 is this. In the public interest, the Comptroller and Auditor General may be relieved. Even if the Auditor General wants to undertake that particular audit, the President or the Governor of the State having a Legislative Assembly should be of the opinion that it is necessary.

MR. CHAIRMAN: Are you referring to Section 15-2?

SHRI PURUSHOTHAM: The C&AG does not want to take that. He is at his discretion.

LEGISLATIVE COUNSEL: That is also not correct. First of all, the President is to be satisfied that it is in the public interest after consultation with the C&AG. Therefore, if the Auditor General does not agree, he cannot be relieved.

MR. CHAIRMAN: Instead of 'Consultation', if we say 'consent' will it be enough?

SHRI PURUSHOTHAM: Regarding Section 15(1), the suggestion of the hon'ble Member was that 'specific purpose' may be deleted. The restriction of 'for any purpose' is there.

SHRI PRAKASHCHAND SETHI: If a grant is given for a specific purpose, whatever may be the amount, and if that grant is not utilised for the specific purpose, in that case the Comptroller & Auditor General has the authority to go into it. Therefore, this is to cover such cases where either these financial rules do not apply or Section 14 does not apply or Section 15 does not apply. Therefore, in order to cover such cases—the grant may be a small amount, but it has been given for a specific purposes—'specific' word is there.

SHRI PURUSHOTHAM: If it does not come under Section 14, it comes under Section 15—for any specific purpose. Then, the restriction is there.

MR. CHAIRMAN: Any grant or loan. As he said, if you give Rs. 500 for a school, you mean to say that it must be audited and the Comptroller must go there?

SHRI PRAKASHCHAND SETHI: Provided the money is not spent

MR. CHAIRMAN: Then, he can go?

SHRI PURUSHOTHAM: The private schools are mostly run by their own resources, and the Government is giving a grant. It is not entirely financed by the Government. We have to see whether it comes under 14 or 15.

MR. CHAIRMAN: It comes under Section 15.

SHRI PURUSHOTHAM: When you read with the proviso....

SHRI M. ANANDAM: That proviso is only to relieve the Auditor General.
MR. CHAIRMAN: Is it the desire of the democratic Government to give

as much freedom to the institutions and individuals? Or, we only should restrict their freedom where it is necessary and in the interest of the public. As I said, I get Rs. 5,000/-, and it is for a specific purpose. So we are having some function for which it is given. Now how we use it? Again, we come to the question that for every little grant the Comptroller must come and we must leave it to his discretion. Why do you want to increase his work and make people feel that we are restricting their freedom?

SHRI TEJ VERMA: In the case of matching grants, which were very much in fashion a few days ago, this matching never came?

MR. CHAIRMAN: Those manipulations of law cannot be avoided. The question is whether the law can attract or not these matching grants and we find it can attract. There are ways and ways of violating a law. That you cannot help.

LEGISLATIVE COUNSEL: There is also some misunderstanding. In certain cases he can be relieved of his duty, but otherwise, so far as the Statute is concerned, he may be relieved by the President after consultation with the Comptroller and Auditor General. Otherwise, this proviso is exceptional. The general rule is it is his statutory duty to exercise.

SHRI DINKAR DESAI: Can you give some concrete cases here?

SHRI PURUSHOTHAM: In a State Government for purchase of bullocks matching grant has been given. He must purchase the bulls by putting a share from his side, but it is never so. And then for digging wells, subsidy is given. He has to invest that amount for that purpose. But when we have gone and conducted a survey, the reports were that the wells were started but the water was not struck and hence it was abandoned. Now grants to Harijan colony. Upto the plinth level they were constructed and they

have not put up the roof. Heavy rain came and demolished the whole thing. Therefore, a person had not constructed and the matching grant was released. The point is unless we bring into being an object of value, the money should not have been spent.

SHRI DINKAR DESAI: That was a defect in the execution and not the rules. Now grants to colleges by University Grants Commission are given. They give 2/3rd of the total and 1/3rd is matching grant. But the grants are released when actual certificates from engineers are submitted as to what amount they actually spent. Somebody must take care to see that matching grant has also been spent to a certain extent and then only the Government will release the amount. But how do the question of law comes in there?

SHRI PURUSHOTHAM: Government is giving 50 per cent grant and the other 50 per cent must be spent by the person concerned. Here we will have clause 14 or 15; it does not come under 14. Under 15, it gives grant for any specific purpose. Now a cooperative society which does not engage in any specific activity, but which has other activities too....

SHRI PRAKASHCHAND B. SETHI: The question of examination is only in respect of certain matching grants. Now it is possible that, for example, matching grant is given for constructing a road. 50 per cent is given as grant and 50 per cent they have to meet themselves. Now it is possible that labour has been shown to the extent of Rs. 2,500 and they may not have done that much labour. To that extent this could be examined under 15(1). But if that Society is doing some other work, which is not covered by a matching grant and which they are doing entirely on their own, I do not think there is necessity for Auditor General going in and auditing their accounts.

MR. CHAIRMAN: For example, labour is to be paid Rs. 400 and now how much I pay to a labourer, that is my own business. What can you do? If there is cheating, that will be universal.

SHRI DINKAR DESAI: But that can be even calculated by an engineer.

SHRI PURUSHOTHAM: In CPWD we are doing that audit.

SHRI M. ANANDAM: You have the power to do that under 14.

MR. CHAIRMAN: We have explained to you. You tell us a case where because the word "entirely" is there, people are getting out of our clutches. You have not been able to show it to us. We have provided so many sections and all the cases must be covered. On the contrary, if we take away the word "entirely" then there are certain cases which may not be covered.

SHRI PURUSHOTHAM: : My submission, sir, is suppose I start a small industry getting a loan. That is loan that has been given to me and it is not for any particular purpose..

MR. CHAIRMAN: You will come under 15. If it is a grant or a loan, you will come under 15. Why should you put yourself under 14. This will come under 15.

SHRI P. R. BANSAL: Our difficulty is in regard to consultation. Consultation means mere consultation.

MR. CHAIRMAN: We will examine. You want "consent".

SHRI P. R. BANSAL: Yes, sir.

SHRI M. ANANDAM: We have spent enough on this, sir. We may proceed further.

MR. CHAIRMAN: Now we are proceeding further.

SHRI PURUSHOTHAM: No. 19, auditing of Government companies.

The Act is quite specific there, i.e., where a corporation or company is got into being by an Act of Parliament or an Act of Legislature, there may be provision that its accounts should be audited by the Comptroller and Auditor General. My submission is that public sector undertakings must do better to inspire confidence. On an official estimate some 3,000 crores have been invested in them but the return is not very encouraging. There is a distinction between chartered audit and the Government audit. There are relative advantages of this audit also.

The results must show that the money spent has been correctly spent so that the money that is invested is giving us valid return.

SHRI M. ANANDAM: In the Company Act it is laid down that the CAG not only appoints the auditor for auditing the Accounts but also gives direction in which the audit should be conducted.

SHRI PURUSHOTHAM: It is a super-imposed audit.

SHRI M. ANANDAM: Not super-imposed. Even the statutory auditors when they are appointed, they also do these things. However, CAG does not say he feels that the company is running all right. He not only appoints the auditor but gives direction in which the auditor has to conduct the audit.

SHRI PURUSHOTHAM: L.I.C. is outside the purview of CAG. State Bank of India, etc.

CAG has, in certain cases, got the power to report that super-imposed audit. He does not evaluate what has been audited by the Chartered Accountants has been done properly or not.

SHRI M. ANANDAM: For the purpose of finding out purpose of propriety audit, it is not necessary that he should go through every voucher. He can study the problem, Balance Sheet and do all these things. As a matter of fact in the case of Public

Undertakings, in addition to the audit done by statutory auditor, in every case CAG make a super-imposed audit and makes a Report. These are our comments. It is not as though CAG is barred from making the examination.

Shri PURUSHOTHAM: What about the L.I.C.?

SHRI M. ANANDAM: This is a different matter.

SHRI PURUSHOTHAM: There is a scope for that.

SHRI M. ANANDAM: You can make out a case for LIC and Food Corporation. CAG has the right.

SHRI PURUSHOTHAM: I do not disagree. In those cases, CAG at least could satisfy himself about the performance of those companies and make a report to the Parliament. By virtue of making the provision in the Act itself, the CAG cannot step into that particular field. There can be greater scope for restricting. A clause can be divesting the CAG of responsibilities. How can Parliament do it?

SHRI M. ANANDAM: You can say LIC, Food Corporation.

MR. CHAIRMAN: Your suggestion is LIC, State Bank, now the nationalised Banks, etc. All these should be brought under the purview of the CAG. We will give best consideration to your suggestion.

SHRI PURUSHOTHAM: About 148 Article, it talks of two things: 'sub-the Comptroller and Auditor General, tutition and 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 rule, made by the President after consultation with the Comptroller and Auditor General.' 309 also says: An Act may be passed

by the Parliament relating to the Service Conditions.

MR. CHAIRMAN: We have not touched that.

SHRI PURUSHOTTAM: The Bill is not comprehensive.

SHRI DINKAR DESAI: Even the procedure prescribed for selection of the 20 per cent subordinates is feudalistic. What do you mean by that?

SHRI PURUSHOTHAM: It is century old concept. The incentive is not there for the people who are the backbone of the I.A. & A. D. Previously we were getting the post of Accounts Officer in five years. Now it takes 10 to 15 years. It is because the percentage restriction is there. Moreover, there is no scope for the expansion of the Department.

The cream of the University has come here with First Class Degree. Nobody wants to enter the Department now. We have been feeling it. I am not exaggerating. The Chairman has made it clear, what I am talking here may be made public. and even the late CAG, Mr. Narahari Rao said:

'The subordinate staff have to pass a stiff technical examination and that the nature of the work performed by them required specialised technical qualifications tested by severe departmental examination, a high degree of initiation, intelligence and sense of responsibility.'

MR. CHAIRMAN: This is Article 148 (1) and you referred to 148(5). Here power is only to make rules.

SHRI PURUSHOTHAM: My submission is 148(1), (2), (3) have been touched except 148(5). 148(5) talks about service conditions and the administrative powers. Unless the administrative powers have been defined

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either by rule or by an Act of Parliament it is not comprehensive. When you invoke (5) you need not invoke the administrative powers of the CAG. Please see explanation to clause 21. It provides any power exercised by the CAG may be exercised by any such officer of the Department as may be authorised by him. It is not like judiciary where a judge gives the decision. We are the representatives of the CAG and actually perform the duties. So, CAG means the IA&AD. So, the service conditions of the employees and administrative powers of the CAG must be taken simultaneously so that the Bill would be comprehensive. There is case to bring 148(5).

Sir, our scales were fixed much before 1929 and were later reduced and since then our scales have undergone downward trend. Other scales have been upgraded but ours have not been touched for the last 20 years. We submitted a memorial to the C.&A.G. and we understand that they are making the post gazetted.

MR. CHAIRMAN: Can't you plead your case before the Pay Commission?

SHRI PURUSHOTHAM: The Commission will come up in 1971. My submission is a case had been made by Mr. Narahari Rao but then there was some misunderstanding between the Association and the then CAG and the case was not further pursued. If this is allowed to continue pending the consideration of the Pay Commission, they cannot be equated with the pay of the Section Officer.

I have to be conversant with all the rules and regulations and all Taxation Laws. Income Tax persons have to specialise only in income tax cases, whereas I am to specialise in so many laws. Proper case can be made.

MR. CHAIRMAN: I would like to ask from you whether in U.K. they have separate law, conditions of service as decided by CAG as we have

here. Whether there is any separate provision that you are demanding? Under Article 148 it has been suggested that there should be law passed by the Parliament. Whether a similar Law or some provision exists there in the United Kingdom?

SHRI PURUSHOTHAM: I am sorry I have not made any study.

Fulton Committee has made an observation: In the case of Open and Special competitions in 1960 the percentage was 25, in 1961 it was 32, in 1962 it was 34, in 1963 it was 32, in 1964 it was 32, in 1965 it was 33 and in 1966 it was 39. In the case of Limited competitions it was 4 per cent. Departmental promotions the percentage has been 70 in 1960, 63 in 1961, 58 in 1962, 61 in 1963, 63 in 1964, 60 in 1965 and 55 in 1966.

We used to get first promotion in 5 years. Now the top posts are being given to IAAS. We are not allowed to appear in the open competition.

MR. CHAIRMAN: If there is a direct recruitment and you are working in the Department, will you not be allowed to appear for that post?

SHRI PURUSHOTHAM: We are not allowed to appear for direct recruitment. Previously a Superintendent who had put in six or seven years of service, if he was of an outstanding calibre, he could be provided for in the I.A.A.S. he was considered by the UPSC and he could be confirmed. Now the first promotion is Accounts Officer, if he could be considered of an outstanding merits he could be nominated to the IA. & A.S.

MR. CHAIRMAN: Will you kindly submit a note as to what you want. Just as you said because one promotion is there, unless you have the first promotion, you will not be sent there. You do not want the Board. Younger people may not get that chance. They will have to wait for first promotion for so many years and later on they will go to UPSC.

So far as these promotions are concerned, you have stated in your memorandum that you want these things. You now give us a note stating your actual difficulties and how those can be solved and what you want us to do.

SHRI C. D. PANDE: We should exercise influence for their right to compete in the examination competitive one.

SHRI PURUSHOTHAM: If we are given the chance, we will compete.

SHRI M. ANANDAM: I feel the Departmental people are getting frustrated. I think there is need for the revision of the entire scheme for promotion.

SHRI PURUSHOTHAM: Unless Administrative powers are not brought in, it is not complete.

MR. CHAIRMAN: You have Article 309 to which there is a proviso. So long as the Act is not passed by the Parliament, the rules at least can be made. We have certain scope. We will consider.

SHRI PURUSHOTHAM: My point is about the comparison of CAG with the Secretary in the Department. It is not quite appropriate.

MR. CHAIRMAN: You wish equivalent to 'Chief Justice'.

SHRI PURUSHOTHAM: There must be position to be given at par with the Chief Justice.

MR. CHAIRMAN: He wants to say that the provision like salary, pension, etc. should be at par with the Chief Justice.

SHRI PURUSHOTHAM: Yes. Any Secretary can aspire to become CAG. In so many words, it has been stated that the salary of C&AG should be

Rs. 4,000/- and the pension should be Rs. 1,333/-. When the Judges' pay scales are revised and the retirement age is also enhanced, the Auditor-General suffers from that complex. He cannot be in a position to hold the post. If the Members feel that he has to work without fear or favour, I think there must be some charm for him to come out of his office, and not as a Secretary. The comparison with the Secretary is not quite apt.

MR. CHAIRMAN: We will note it.

SHRI TEJ VERMA: I want to say something. We joined in this office as UDCs. We remain as UDCs for 3 or more years before we can sit for the SAS Examination. This period is for familiarisation with accounts and audits. After that, we sit in the Examination. Of course, it is a tough examination and the pass percentage is low. After passing, we go to the field. We are the people who come in contact with actual accounts. Our independence is the independence which ultimately counts. The Comptroller & Auditor General does not go to the field. So, what I submit is that this should be kept in mind.

SHRI PURUSHOTHAM: They are oppressed with a sense of frustration and they have not been in a position to bring in their best. Let God forbid, if they compromise and stoop low and join hands with executive, what should be the position? And I am not exaggerating. I go on Income-tax duty. Whatever report I give, of course, it will be approved in toto. And the Audit Report will be in our hand-writing, and it will be approved in toto. What is the reward we get? I am confident of doing my job. I have to struggle for 13 to 14 years to get my promotion. I am not given cash incentive. And, of course, Mr. Pulla Reddy, ICS (Retd.), after hearing this story said that "I wish you could change the subordinate to Junior". With this stigma, we go and

discuss with the Heads of Departments. Some of these may not relish the idea of discussing with a non-Gazetted officer. And we should be conferred gazetted status. My submission is that his functional independence must be here in the interest of administration. We beg to submit that 6,000 accountants, all over India, who have had distinct academic career, put in their everything in this Department, and they are in the sense of frustration because the future is so bleak. We will always be grateful to you, if you make appropriate recommendations.

MR. CHAIRMAN: One of your requests is that the word 'Subordinate' should go. You said something about your promotions also.

SHRI PURUSHOTHAM: Yes, Sir. It may be called 'Junior Accounts Service'. Due to the economic crisis in 1929, the scale was reduced to Rs. 215/-. Since 1929, it was like that. What I was saying is that before any Pay Commission takes up, there are certain things that should be done. There is no doubt that he is the man that is doing the work.

SHRI M. ANANDAM: You said that there are nearly 6,000 people all over India. No scheme can get promotions for all these 6,000 people. It is only the right man that gets it. Instead of 20 per cent, we may recommend 40 per cent. That is the only thing that we can do. How can we satisfy all the 6,000?

SHRI PURUSHOTHAM: There are stages of promotion.

SHRI M. ANANDAM: We have sympathies for you.

MR. CHAIRMAN: Thank you very much.

(The Witnesses then withdrew)

(The Committee then adjourned)

MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969

Tuesday, the 16th June, 1970 at 9.30 hours and again at 15.00 hours at Council Hall, Bombay

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Dinkar Desai
5. Shri Nageshwar Dwivedi
6. Shri S. S. Kothari
7. Shrimati Sangam Laxmi Bai
8. Shri Dhuleshwar Meena
9. Shri Anand Narain Mulla
10. Shri D. N. Patodia
11. Chaudhuri Randhir Singh
12. Shri S. M. Siddayya

Rajya Sabha

13. Shri M. Anandam
14. Shri C. D. Pande
15. Shri Sundar Mani Patel
16. Shri Thillai Villalan
17. Pandit Bhawaniprasad Tiwary

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Legislative Counsel and Joint Secretary, Ministry of Law.*
2. Shri A. .P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

**REPRESENTATIVE OF THE MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

Shri B. Maithreya, Joint Secretary (Budget).

SECRETARIAT

Shri M. C. Chawla—Deputy Secretary.

WITNESSES EXAMINED

- I. Shri R. K. Talwar, Chairman, State Bank of India, Bombay.
- II. Shri T. A. Pai, Chairman, Life Insurance Corporation of India, Bombay.
- III. Dr. Vikram A. Sarabhai, Chairman, Atomic Energy Commission, Bombay.
- IV. Air India, Bombay.

Spokesmen:

- (i) Shri M. S. Chaturvedi (Retd. Air Marshal), General Manager.
- (ii) Shri K. K. Unni, Assistant General Manager.
- (iii) Shri C. V. R. Rao, Financial Controller.

I. Shri R. K. Talwar, Chairman, State Bank of India, Bombay.

(The witness was called in and he took his seat).

MR. CHAIRMAN: I welcome you all to this historic city of Bombay. I also welcome the witness who has come to give evidence before this Committee.

I have to invite the attention of the witness to rule 58 of the Directions by the Speaker. Even though you want the evidence to be treated as confidential, it is liable to be made available to the Members of Parliament.

SHRI R. K. TALWAR: I have already signed that note.

SHRI S. S. KOTHARI: We have seen the memorandum submitted by you to the Committee.

The statutory auditors generally conduct what we call arithmetical accuracy or voucher audit, more or less. They do not conduct what we call propriety audit, such as, whether the State Bank has conformed to its objectives or works towards achieving those objectives and so on. If the CAG looked into those matters, it would probably lead to a more efficient functioning. What are your views on this proposal?

SHRI TALWAR: Statutory audit is concerned with ensuring that the profit and loss account and the balance sheet that is passed on to the shareholders and the public give a true picture of the assets and liabilities of the institution concerned. For arriving at the truth of these things, a statutory auditor will have to satisfy himself that the assets and liabilities as depicted there are true. It is also his obligation to ensure that the functioning of the bank is proper, that the loans advances and investments that it makes are consistent with the character of the State Bank and its regulations. I do not quite understand what you are referring to when you refer to propriety audit because I feel that it is the function of the statutory auditor to bring to the notice of the

authorities concerned all items which in his view are improper vis-a-vis State Bank Act and regulations.

Over and above the statutory audit, we have a quite refined system of internal audit procedure. We have a battalion of officers who are always on the move. In selecting officers who are sent out for inspection or audit, an officer belonging to that area which is inspected is not appointed. This principle is invariably followed so that the inspector or auditor who audits a branch office is unknown to the persons around him because he functions in an area which is hundreds of thousands of miles away. This ensures that the propriety audit is conducted. Their reports are followed up departmentally and the internal audit procedure is strengthened from time to time. None of our branches remain outside audit for more than two years.

I agree that this aspect is very important and it is covered by internal audit procedures. Where they do not exist, they should be created; where they exist, they should be continued.

SHRI S. S. KOTHARI: I shall give you one or two examples of what I mean by propriety audit. Let us say that on the basis of the credit worthiness of a party, his loan eligibility would have been about Rs. 50 lakhs and a bank may have given him a crore of rupees as a loan. It may not be within the competence of a statutory auditor to question it.

Or, let us say, some investments had been made in X group of concerns which have acquired some notoriety and those investments should not have been made. If the board resolution is there and other formalities had been completed and other provisions of law had been complied with, the statutory auditor may not have a right to question that transaction. If the CAG is there to make an occasional test-check, he can say: you should not

have done so. That is why I say that audit by CAG may ensure propriety audit.

SHRI TALWAR: State Bank is a banking corporation. A banking corporation will have to conduct its business in a manner which not only ensures safety of its finances but is also consistent with the requirements of the party, in addition to being consistent with the regulations. Besides, 'credit-worthiness' is a word that is acquiring a different meaning. In the State Bank of India itself, the word 'credit-worthiness' has changed its meaning over the past 14-15 years gradually. What is now emphasised is credit worthiness of the party; rather than that of security. The soundness of a banking proposition of the type you have mentioned is difficult to determine. If the soundness of a business decision taken by a banking executive were to be questioned in the manner you have put it even by the CAG, I think it would seriously interfere with the independent functioning of the Bank. Because a banking executive has to take impromptu decisions. What could be done by any auditor of the type you are having in mind, and this is looked after by our internal audit, is to see that once the decision is taken, it is based on recorded facts. A crore of rupees may have been given, where, according to the judgment of some one else, it should have been Rs. 50 lakhs. There would be a record in the files of the bank to indicate why it was found in our judgment or in the judgment of the executive, that a higher loan should have been granted.

SHRI S. S. KOTHARI: With regard to the purpose, what is your opinion as to whether it would adversely affect the security of the loan, realisability of the loan, and to what extent your bank will guard it?

SHRI TALWAR: Traditionally, we have always felt that when there is security the loan is safe. Let us take, for example, a very simple loan to the agriculturist for the crop and a collecting secured by mortgage of his land.

The land may be worth very much more than the amount of the loan, but we as bankers, are quite realistic and understand that empowering the security and selling the land and recovering the money is something that may never be possible. So, to equate the loan to the value of the security is something which, in our humble opinion, is improper and unsound. What probably is the choice, and that is what we are practising, is that the loan should be given to a person who, we feel in our judgment, is one who can use it for the purpose which will produce more wealth. A farmer, if he takes Rs. 1,000 as loan, and if he can produce and repay the loan and save the money, is the one who we could consider is worthy of credit.

The security may not be there, but the security really lies in his capacity to produce more with the amount that he has borrowed from us. This, we apply irrespective of whether the borrower is an agriculturist, a small industrialist or a big industrialist.

I will take, for instance, a very big factory that set up in the chemical industry which got into difficulties. The banks had committed crores of rupees there. By value of assets, held as cover, the security was very much more than the loans. By a sale of assets we could have recovered nothing. The industry would have died and the banks would have incurred very high liabilities. But it was necessary to set things in order in the management, and the money was then recovered, and the industry is now doing well.

SHRI S. S. KOTHARI: I have two more questions. What is the extent of your bad debts in the last 50 years, roughly?

SHRI TALWAR: Our bad debts are infinitesimal.

SHRI S. S. KOTHARI: What is the amount?

SHRI TALWAR: I do not remember.

SHRI S. S. KOTHARI: Please send a note on that. When we have an

institution where in crores of rupees are invested naturally bad debts would be infinitesimal if you calculate it relatively. But we would like to know the quantum of bad debts during the last three years. I think your balance sheet will show that.

SHRI TALWAR: It would not show.

SHRI S. S. KOTHARI: My last question with regard to the Reserve Bank's inspection is this. The point is debatable, as to the efficacy of their inspection. If you study the banking disputes during the last two decades, you will find that in spite of repeated Reserve Bank's assertions, we have had bank failures, particularly in the Palai Central Bank where several Government officials suffered, and there were certain things like moratorium in the Bihar Bank. If the banks are properly examined, and investigated, some of them may reveal advances running into lakhs of rupees which may not be realisable, but have been carried forward. I am saying it with a full sense of responsibility, and if the Reserve Bank sees these proceedings it may strengthen its check. My feeling is that the Reserve Bank's inspection, should be foolproof. In my opinion it should be. To say that it should be such that it is not necessary that the Auditor-General should look into it, does not appear to be a very sound proposition.

SHRI TALWAR: I do not think I have said that because the Reserve Bank is conducting the inspection, the Auditor-General should not have a look into it. I have only recounted the kind of checks that banks are subject to, in addition to the audit we have in the internal audit system. If the inspection of the Reserve Bank has failed to pinpoint the deficiencies in a banking institution—there may have been good reasons why it was not pin-pointed—because banking business is a confidential business—and when a bank is beginning to show a sign of weakness, and if the Reserve Bank were to proclaim the defects that exist, the chances are that the bank will to down at once.

There is need for changing the concept of inspection of audit. We have always been conscious of it. The Banking Regulations Act and the Companies Act talk of assists being covered by security. But what is more important is the manner in which the credit appraisal was done, because if the credit appraisal was not done properly, the security that is tagged on to the loan may be found worthless. The inspecting machinery of the Reserve Bank is there, and just as we are changing our inspecting procedures, they will attach, we do hope, a greater weight to these aspects than to the security. I have reasons to believe that they are doing it now.

SHRI D. N. PATODIA: I have gone through the statement of the State Bank of India. Page four of the statement says that it may be desirable to make a statutory provision for inspection and audit of the affairs of the State Bank of India and its subsidiaries by the Comptroller and Auditor-General of India, when it is felt that the Government's policies formulated for the achievements of these objectives are not being implemented by the banks."

I would like to have a little more clarification on the subject. You are no doubt aware that under the present provisions, the State Bank of India and whatever commercial banks including the nationalised banks are subject to ready or routine inspection by the Reserve Bank of India. All banking policies are formulated by the Central Government possibly, but through the instrument of the Reserve Bank of India. One of the main functions in the inspection of the Reserve Bank is to see that the policies formulated by the Central Bank are properly implemented. I would like to know to what extent the inspection of the Reserve Bank carries out these duties entrusted upon them to find out as to what extent to which the policy decided by the Government is implemented. If that be the case, how do you do think it is necessary

that in addition to the inspection of the Reserve Bank, the additional inspection of the Auditor-General is needed by the Auditor-General in this matter?

Then, I hope you are aware that in any case the Central Government have powers to appoint the Auditor-General to audit whenever it thinks necessary. Since they have the powers, whenever they feel the necessity, they can order him to do it. For the matter of that, even the State Bank of India, when it does not function properly, can be looked into by him. In view of the provisions already existing, why do you suggest that such powers should be given to the Auditor-General?

(c) I would also like to know your views on whether in the discharge of your duties as a banker—you are there to safeguard more the interests of the depositors because I feel it is the money of the depositors which has been entrusted to you and your duty primarily is to see that the monies of the depositors are properly safeguarded and they are held in trust, in confidence and in secrecy—you feel that this investment, which has been made with you by the depositors, is likely in any way to suffer by giving overall powers to the Auditor-General?

SHRI TALWAR: When I mentioned in the note that the Auditor-General may be entrusted with the powers to conduct an audit when the Government feels that the policies in force are not being implemented by the Bank concerned, I was trying to bring out in relief what I felt was necessary, viz., that an audit by the Auditor-General should not be made a routine affair; that it must not be done every year, every second year or every third year. Since there is a provision generally in the Act, which although it does not refer to the Auditor-General by name but it is clearly evident from there that the Auditor-General could be appointed by the Government to conduct an audit when-

ever Government of India feels like doing so therefore on the question whether the Auditor-General should be specifically given such powers, I had mentioned that it should not be made a routine affair but it should be linked to certain circumstances where the Government of India may ask the Auditor-General to conduct an audit because the policies of the Reserve Bank of India or the Government of India are not being implemented by that Bank. The Auditor-General might be asked here to intervene and see what is happening. Now since the Reserve Bank's inspections are meant to ascertain whether the policies are being followed properly or not, in all humility may I submit that it is for the Reserve Bank to answer whether it is fulfilling this role or not.

Now coming to the third aspect as to the safety of the depositors' money, as Chairman of the State Bank I have been mentioning in all forums that the primary duty of every banker, whether in the nationalised or non-nationalised sector, is to do business in a manner which will inspire greater confidence in the depositors because the function of banks particularly after nationalisation, my humble view, is to so conduct their business so that more and more resources are mobilised for the development and growth of our economy and if the conduct of our business were to be such that instead of inspiring confidence it results in causing fears that will not be good. I feel that in banking business the policies that have been laid down generally, they do not, in any way, remove this trust.

SHRI D. N. PATODIA: My question was different, Mr. Talwar. Do you feel that by opening out avenues of audit in a general way of such institutes, as the banking institutions, for Auditor-General the privacy and the secrecy and the interest of depositors are likely to be violated in any manner?

SHRI TALWAR: I feel that no audit, irrespective of who does it, should be conducted in a manner which will violate the secrecy of the banks' affairs. So long as the auditor is obliged to maintain secrecy of the banks' affairs, no audit can jeopardise the interests of the depositors or the trust that has been reposed in the banker because banking business being a sort of a trust business should be conducted in a manner which could be thrown open to any auditor for examination so that it could be shown to the public to convince them about the safety of their funds.

SHRI D. N. PATODIA: I think you are aware Mr. Talwar that the Comptroller and Auditor-General is responsible to the Parliament and not to the banks and, therefore, they would have no hesitation in making out such reports which they feel are good for the Parliament.

SHRI TALWAR: If the Auditor-General's audit is going to mean any diminution with regard to the secrecy of the banks' affairs, I am opposed to the audit being entrusted to the Auditor-General because if the Auditor-General is not going to conform to the provisions of the Section in the Law which says that banks' affairs have to be kept confidential, then I am afraid I will submit that this audit should not be left to the Auditor-General. It could be so arranged that if the law provided for such audit by the Auditor-General in any given circumstances, rules made under that law could definitely provide for this safeguard.

SHRI D. N. PATODIA: In your note on page 3, paragraph 8, Mr. Talwar you have stated that: "While it is seen from the above that the existing provisions of law in regard to the audit of the State Bank of India and the Subsidiary Banks are adequate in so far as it concerns the members of the Corporations and the persons who

deal with them, the suggestion that the Comptroller and Auditor-General should also be empowered to audit the affairs of the Bank has also got to be examined in the larger interests of the public in general". I would like this point to be clarified by you in detail. For instance, how do you feel that the larger interests of the public is likely to be safeguarded more if the books are audited by the Auditor-General? In other words, do you consider that the present standards of checking that is carried out, i.e. the inspection carried out by the Reserve Bank of India, the inspection carried out by the Auditors, are enough to safeguard the public interests and if there are any inadequacies, how they are going to be fulfilled by entrusting it to the Auditor-General?

SHRI TALWAR: I think I mentioned in my note that the Auditor-General's audit should arise in circumstances where Government has reason to believe that certain things which have happened should not have happened.

SHRI D. N. PATODIA: I am not talking of Government. I mean when certain circumstances are involved which are not covered and which could be covered by entrusting it to CAG.

SHRI TALWAR: I won't say that the machinery already existing, both internally and externally, is not adequate. We believe it is adequate. But still in the changing times, the views at one time held, viz., about the sanctity of the affairs of the State Bank of India as something which should not be exposed to the examination of the Auditor-General, require review and it is that review that I have placed before the Committee. When I talk of changing times, I mean the suggestion that has come to your Committee and it is a suggestion that has been placed before you by those who matter. The suggestion has come because the people are thinking that in addition to the audit that was al-

ready conducted, the Auditor-General should be made responsible there because the funds of the Government are involved.

SHRI D. N. PATODIA: Please tell me what you are thinking about it?

SHRI TALWAR: I would say that in accordance with the Act of the State Bank of India the Government could, at any time, call upon the Auditor-General to conduct an audit. That is already there. If it is felt that over and above this, something more should be done, we have no objection to the Auditor-General being called upon to conduct an audit in given circumstances.

We have got an open book. We do not mind, who looks as it, so long as he is authorised to do so.

SHRI S. S. KOTHARI: We are glad to hear that.

SHRI D. N. PATODIA: My question has still not been answered.

SHRI TALWAR: We are quite satisfied with the adequacy of our internal audit. We expect that even if the C. & A. G. inspects our accounts he would be able to give us that certificate.

SHRI D. N. PATODIA: I hope, you must have gone through the reasons for the various amendments to this Bill. Now by making certain amendments, we are trying to enlarge the scope and the activities of the C. & A.G. by bringing within its purview various institutions. Don't you think that by doing so, we shall be converting this institution into a monstrous one in size, by which it would be difficult to function efficiently in a manner as it should be.

SHRI TALWAR: You are referring to the institution of the C. & A.G.

SHRI D. N. PATODIA: Yes.

SHRI TALWAR: I personally feel that this should not happen.

SHRI D. N. PATODIA: My last question is with regard to the foreign exchange transactions. I am sure, your Bank is extensively involved in foreign exchange. Now the role of a bank in the matter of foreign exchange is somewhat limited, because the matters with regard to the grant of foreign exchange, with regard to import and export, with regard to the manner in which the payments are to be made, are decided by the Ministry of Foreign Trade, by the Ministry of Tourism Development, by the Controller of Imports and Exports and banks are only instruments in the functioning of these policies. If that be the case, how would you feel that additional checking by C. & A. G. of the foreign exchange transactions of the banks is going to be effective in any manner?

SHRI TALWAR: I do not see how the C. & A. G.'s special audit of the foreign exchange transactions is going to be revealing.

SHRI D. N. PATODIA: If any checking is needed with regard to the foreign exchange, the right thing would be to examine the various Ministries, Controller of Imports and Exports rather than the banks.

SHRI TALWAR: I would place this responsibility on the Reserve Bank because all the foreign exchange transactions are reported with the Reserve Bank.

SHRI D. N. PATODIA: I am talking of the foreign exchange transactions only where imports and exports are concerned. The broad guidelines and the amount of foreign exchange in terms of payment are provided by the Controller of Imports and exports and the commercial banks are only instruments in carrying them

out. They have no other function. Would you agree with me that if any checking is needed, it should be at the level of the Ministries rather than banks?

SHRI TALWAR: You are referring to the C. & A. G.'s audit being confined to the Ministries rather than to the banks. I would agree there.

SHRI D. N. PATODIA: Then the inspection should lie with the Ministries and not with the banks.

SHRI C. D. PANDE: Mr. Talwar, you seem to be convinced that the internal audit is sufficient, but there can be cases where some serious irregularity is there which exposes your bank to the public. In that case, even the highest officers are likely to shield that and there is no other remedy for the Parliament to know about that except through the C. & A. G.'s audit.

SHRI TALWAR: But if there are such transactions which the bank authorities are trying to cover up in order to shield their own reputation, I would say that the statutory auditors are not performing their functions.

SHRI D. N. PATODIA: That is true, but we have seen in Hindustan Steel and in various other public undertakings that things worth lakhs of rupees have been lying idle and have not been utilized. In such cases, we ask the Auditor General to look into that so that we might go further. Now yours is one of the biggest institutions and as the human nature is, one feels that something has gone wrong, but he does not feel that it should go to the public. In that case, there must be some highest authority and the Parliament's instrument of looking into things is Auditor General. If he says it is all right, well and good, but if there is something serious it can be known only through the Auditor General. If we exclude

your State Bank from the Auditor General's purview, the same thing can be said by S.T.C. and others. They will say, "We are independent autonomous and industrial organization, what the Auditor General has got to do with us." Every Ministry has got a Financial Controller. If every Ministry is subject to the C.A.G.'s audit and you are also a part of the Finance Ministry, why should we exclude your bank?

SHRI TALWAR: I think, you have raised a very important issue. To some extent, my views may be apparent fully with what I have already stated. The law has provided for an audit by statutory auditors. The statutory auditors are those who are qualified to audit and have been selected by the Reserve Bank and appointed by them in consultation with the Central Government. Now if these auditors are not deemed competent to bring out the truth in a form that is required, then, I think, there is something fundamentally wrong with the concept of statutory audit. The auditors are duly qualified the form in which the information is required by the law, is given and if that form is not sufficient, I would say, a direct method would be not to ask the Auditor General to audit but to modify that form and ask for amplified information and let it be given. The concept of the Auditor General, if I have understood correctly, is related to the investment that the exchequer has made in the institution and here the exchequer should differentiate between a bank and an organization like Housing Steel or the S.T.C. because in a bank the total resources if they are divided between what is owned by the Government and what is not owned by the Government, the former is a small fraction and it is really the statutory auditor who has to bring true picture to the public and Parliament.

If you feel that the concept of audit has to change, let the scope of statu-

tory audit be enlarged; let us not introduce a third element. As I mentioned earlier, C.A.G. audit is permissible even today, under the law. If you want to make exclusively for public consumption make it, but do not make it a routine affair. Let it be done under specific circumstances. Ordinarily I feel that the statutory audit plus the internal audit machinery should be adequate.

SHRI S. S. KOTHARI: The statutory auditors are obliged to act according to the statutes of the company law in the case of companies and according to the Banking Companies Act in the case of banks and for the State Bank according to the State Bank of India Act. Propriety audit is something extraordinary or special, beyond the statutory auditors. If this Committee and the Government feel that the additional responsibility should devolve upon the statutory auditors, that is a different matter. The duties performed by the statutory auditors are being satisfactorily performed within the limitations laid down by law or as required by law. I want this to go on record.

SHRI TALWAR: If it is conceded that statutory audit is done adequately, why should there be any thought of having somebody else to check it?

SHRI S. S. KOTHARI: Propriety audit does not come within the scope of statutory audit.

SHRI TALWAR: Let us then amplify the function of statutory audit. It can be done. Those persons are chartered accountants; there are hundreds and thousands of them. Why not amplify their scope rather than introduce a third element. In accordance with the wind of change, I feel that the State Bank should not say: we do not want to expose ourselves. I still submit that the introduction of C.A.G., audit should not

be a routine affair; it should be in specific circumstances which should prompt the Government to feel that it is warranted. Ordinarily, statutory audit should stand and should be amplified if necessary, supported by internal audit procedures.

SHRI SUNDAR MANI PATEL: You say that the C.A.G., audit should be undertaken in some specified circumstances. Can you illustrate those specified circumstances?

SHRI TALWAR: If the Government are let to believe that the State Bank of India is not implementing the policies laid down by the Centre directly or through the Reserve Bank of India, they may ask the C.A.G., to look into it. This is only an illustration.

SHRI S. M. SIDDAYYA: You say that even now the Central Government can ask the C.A.G., to audit the accounts of the State Bank. During the last five years, how many times have the Central Government asked the C.A.G., to audit its accounts?

SHRI TALWAR: Not even once, during the last fifteen years. If you feel that we should expose ourselves, mine is an open book.

SHRI C. D. PANDE: You are emphasising the importance of statutory auditors. Who is the controlling authority for them? An auditor in the Reserve Bank of India depends upon the higher officers in the Reserve Bank for his promotion; in the same way your internal auditors depend not only on you but your subordinates for promotions in their line. In other words, he is not independent. Who writes his confidential report?

SHRI TALWAR: I mentioned earlier, the principle who follow. If the Madras circle is audited, it is

done by somebody from Bengal or Delhi circle. His confidential reports are not written by the Madras office.

SHR C. D. PANDE: If there is some serious irregularity, whether it is Madras or Bengal, you will feel annoyed and you will not like it to see the light of day. That is the normal human tendency. For example take the Reserve Bank. It was revealed four years ago that about Rs. 100 crores advanced to co-operative societies for giving loans to the members was outstanding. It does not give a good image.

SHRI TALWAR: The Reserve Bank have recovered the money all right.

SHRI C. D. PANDE: How?

SHRI TALWAR: I shall explain it further. Suppose Rs. 5 crores is required by the apex bank. All that amount is not given by the Reserve Bank. Whatever money is loaned by the Reserve Bank is fully recovered every year from the apex bank which in turn recovers it from the co-operative societies. It is the co-operative societies which are not able to recover the loans from individual members who are given the loan and ultimately it is the public who are members of those societies which lose that money. Coming to the other point, even if the C.A.G., were to conduct the audit and find out something, I think it is part of propriety that the C.A.G., should not expose the bank because the bank has to have the confidence of the depositors.

SHRI S. S. KOTHARI: C.A.G., can bring it to the notice of Government confidentially or can confidentially inform any Committee of Parliament.

SHRI TALWAR: Whenever anything serious happens, the Reserve Bank and the Government come to know of it at once. That amount of confidence exists.

SHRI S. S. KOTHARI: I would like to draw your attention to Sami Patel's affairs in the Central Bank which was supposed to be an exceedingly good Central Bank and even there irregularities have occurred, thus involving a loss of millions of rupees to the nationalised banks in view of this, let us not strengthen the argument that an inspection by Auditor-General becomes necessary because the existing inspection has not been satisfactory. This fact about the Central Bank was not discovered for such a long time.

SHRI TALWAR: This does not strengthen the argument at all, because even if the Auditor-General had conducted the audit, this would not be known because all these transactions do not appear in the books of the bank. If the branch manager is dishonestly inclined and enters into transactions of the type which involve the bank in pecuniary obligations without having a record of it, then, that bank has to pay for it, because it is entrusted with that amount of responsibility. I know of instances where an accountant of a branch issued fixed deposits without having funds. The monies were deposited with the bank, but misappropriated by the officers. We were liable and we had to pay. It is impossible to detect such transactions merely because we have asked a third party to look into it.

SHRI C. D. PANDE: If internal audit is going on, if the Reserve Bank is looking after everything, how is it possible that two million pounds were misappropriated during the course of a year in London? There must have been some laxity somewhere. After one year, one comes to know that in your bank Rs. 3 crores were missing. What happens then?

SHRI TALWAR : I will put myself in the position of an authority in the Reserve Bank and also in the management of the Central Bank, say. If I am the Manager of the Central Bank, and I decide in my own judgment that I am going to enter into some nefarious transaction, and I do that clandestinely without the knowledge of anybody in the bank and put my signature and thus by my signature authorise and empower and make accommodation available to certain parties, when there is no entry in the bank's books, and others are not therefore aware of it, how will you find it. Only time will tell some day what has been happening, and this happens if I am dishonest and then I am not fit to be a manager. then I am not fit to be a manager. you would run the risk and the Auditor-General or Parliament conducting the audit will not help you there.

SHRI M. ANANDAM : With the collusion of the Manager and other staff, if such things happen, what can be done?

SHRI TALWAR : If the money has gone from some bank, only the Central Bank could know, and it could have happened without the knowledge of the other. What happens if such a case is that the bank management could get information about the manner in which certain persons are living. The standard of living of a bank executive including the Chairman of the State Bank, cannot be such as to be out of line with the amount he gets. Whatever amount one gets paid in salary, most of it goes in taxes. That applies whether he is in India or in England. If the standard of living of a person suddenly shoots up, it is a matter for enquiry. It is in this respect that the bank management could be said to have not been watchful. But if the audit exercises its vigilance, they would know. Those persons who are in contact with somebody will know.

SHRI S. S. KOTHARI : To whom are the internal auditors responsible? Are they responsible to some other persons, or are they responsible directly to the General Manager or the Managing Director to know it?

SHRI TALWAR : Our internal audit may be divided into two parts. One is the Central Inspection Department of the bank which is under the Managing Director. Most of our internal audit is done by this department and the reports are submitted directly to the Managing Director's office.

SHRI S. S. KOTHARI : Promotion and increment to staff—who control these things?

SHRI TALWAR : They are controlled by the circles to which they belong and the Managing Director.

SHRI S. S. KOTHARI : They have to report against themselves.

SHRI TALWAR : No. The persons belonging to the Delhi Circle, for instance, would be auditing officers in the Madras Circle.

SHRI S. S. KOTHARI : In the case of the Managing Director, who appoints him?

SHRI TALWAR : The State Bank's Board in consultation with the Reserve Bank of India and with the approval of the Government of India.

SHRI D. N. PATODIA : You gave a very good suggestion in reply to Mr. Kothari's question that it is necessary that the powers of entrustment with a statutory auditor should be enlarged and by that, some sort of propriety audit may be conducted by statutory auditors whenever necessary. Could you explain what type of manner or in what manner you propose to expand the area of statutory audit do you think that such an expansion of the area of entrustment would be desirable in any way?

SHRI TALWAR: The manner in which it should be enlarged is two-fold. One is to make the propriety aspect of the balance-sheet and profit and loss accounts available to the public. I would not advocate it because it is not necessary to display the propriety part of the audit before the public. But the Reserve Bank, when they appoint the auditors, can specify to them what their functions and responsibilities are, and as part of their responsibility that is specified, in addition to the publication of the profit and loss account and the balance-sheet, they may be asked to comment on such and such a thing.

The second thing is about the desirability of asking the statutory auditor to look into the propriety of certain things. I see nothing wrong in it at all.

SHRI D. N. PATODIA: Would you suggest that in that case the report prepared by the auditor in regard to the propriety of the thing should be made available to Parliament? Because, in that case, it is no more secret.

SHRI TALWAR: The report will go to the Reserve Bank as it is and to the Central Government.

SHRI D. N. PATODIA: Would you suggest that it could be placed before Parliament?

SHRI TALWAR: I would submit that it should not be necessary to submit it to Parliament because if there are improprieties these will be tackled at the level of the Reserve Bank, and the Central Government via the bank concerned. It is necessary that in ensuring the proper conduct of banking business, do not put out to the public, even to Parliament, information about a particular bank, which may jeopardise the depositors' interests. This is one reason that has been held out in the past in

various countries for not having the banks exposed to such a sort of audit.

SHRI D. N. PATODIA: So, you are stressing upon the fact that the auditors of these banking institutions should be answerable in regard to their responsibilities, at best, to the Reserve Bank and the Central Government, but not in any case to Parliament. I feel that the secrecy clause of the Bank Act should not be jeopardised in any way. You have suggested that even if the Auditor-General is empowered to conduct the audit in any circumstances, he must be obliged by law or the rules to conform to the secrecy; that secrecy must not be violated.

SHRI TALWAR: Secrecy must not be violated.

MR. CHAIRMAN: Any other questions.

SHRI D. N. PATODIA: I find that there are two different functions of auditors: (i) audit, and (ii) inspection. So far as audit is concerned, there is no objection even if statutory auditor does it. But in respect of inspection of accounts, inspection by statutory auditors does not imply a thorough audit. In the case of corporations, so far as the capital is concerned it belongs to Government and once it belongs to Government it is the duty of the auditor of the Government to audit the accounts. While reporting to the Government, a part of the Auditor-General's report also contains something secret. Secrecy here only means that the individual aspect of a particular transaction may not be reported. But if it is a report of the totality of the transactions, there should be no difficulty. It is necessary for somebody to report to Government. I would grant that the case of a single depositor's money may not be reported to Parliament. But in regard to totality of the transaction, there is necessity for Parliament to know about it; Parliament is bound to know about it. My question is can Parliament, knowing about it, get full

information straight from the statutory auditor bypassing the CAG, who is a person responsible to Parliament?

SHRI TALWAR: Parliament gets information directly from the Reserve Bank of India or the Department of Banking. These two institutions are fed with all information about banks. Now coming to the presentation of any inspection reports of auditors to Parliament, the reports that would come, the Balance-Sheet and the Profit and Loss Account, are presented to the public and the Parliament. The question is, is secrecy to be confined only to accounts portion of it? I would say 99 per cent yes, but one aspect is not covered here. Banks are by law not obliged to disclose their full profits to public. When full profits are disclosed to Parliament, it will affect this particular sanctity of bank's operations. I have, as an individual banker, advocated that all banks may be asked to disclose full profits to public. When that happens I would have no hesitation to say that any reports submitted by auditors may be placed before Parliament.

MR. CHAIRMAN: Do you mean to say that even when it is nationalised, the public or the Parliament should not know about the profits you make?

SHRI TALWAR: We are permitted by law not to disclose full profits to public. Referring to the particular aspect of the relationship between the trade unions and the employers, I had myself advocated in the last shareholders' meeting that the banks should disclose full reserves to the public, but I cannot take a unilateral decision here. It has to be taken by all banks.

MR. CHAIRMAN: Under the present law it may not be so. But for the new dispensation, where the workers are going to be participants in the running of corporations, are we not entitled to know about it?

SHRI TALWAR: I would say Parliament is entitled. I again repeat here

that mine is an open book; I am prepared to disclose everything.

LEGISLATIVE COUNSEL: Under the existing sub-section 9(41) the law already confers power on the Central Government. In exercise of this power the CAG can be directed to audit accounts of the banks. No circumstances have been specified there; the power is absolutely unrestricted. But if, as suggested by you, a provision is made that the audit by the Auditor-General is done only in certain circumstances, then that power will get restricted. How do you reconcile the two?

SHRI TALWAR: The Act will have to be amended, perhaps. I personally feel that no amendment is necessary. My rider is, do not make it a routine affairs.

SHRI A. N. MULLA: Mr. Talwar, you have been answering questions of people who are financial experts in this Committee. I am a layman. This is absolutely a new sphere for me, i.e. the sphere of finance and auditing. Therefore, it is only as a result of my reactions as a common citizen, that I am going to put a few questions to you. The first thing that I would like to know is whether it is a fact or not that money is the greatest corrupting influence of life?

SHRI TALWAR: I would not like to answer this question because I think power is a greater corrupting influence.

SHRI A. N. MULLA: Is money a form of power or not?

SHRI D. N. PATODIA: Money is the source of power.

SHRI A. N. MULLA: Accepting that money is one of the corrupting influences, is it necessary or not that the public money should be safeguarded as far as possible with as many checks as possible?

SHRI TALWAR: But we should not go on adding to the checks and having

checks only throughout the year and no banking. There is a limitation.

MR. CHAIRMAN: The money should be safeguarded with the other safeguard that the money is also growing. If we do not do this, we do not allow the things to grow.

SHRI TALWAR: The answer would be that where the institutions are working at good profits and they are contributing in taxes to the exchequer, the money is being multiplied and the existing checks should be deemed adequate. Where things would go away, let us have some one to look at it.

SHRI A. N. MULLA: You have not answered my question. Where the money belongs to the State, all possible safeguards should be taken that this money should not be wasted. That was a very simple question that the money of the State should be protected as well as possible.

SHRI TALWAR: I think, that the checks already in force, i.e., statutory audit, internal audit and the Reserve Bank inspection are adequate. If they are not, strengthen them.

SHRI A. N. MULLA: Therefore, we come to this position that according to you, the utmost possible checks exist already. Then, is it not a fact that in spite of these utmost possible checks, there are constant and frequent occasions when the money is lost or the money is embezzled?

SHRI TALWAR: We are a business organization. In any business organization, there will be bad debts.

SHRI A. N. MULLA: Therefore, whenever there is a loss or an embezzlement, there is obviously either non-implementation of the law or the lacuna in the rules that exist.

SHRI TALWAR: Not necessarily. The embezzlement would arise out of

someone misusing his position in circumstances where he can divert some of the bank's funds for his personal use. It is not because the checks are not there.

SHRI A. N. MULLA: If those checks would have been properly applied, even then he would have succeeded to embezzlement.

SHRI TALWAR: I do not think so.

SHRI A. N. MULLA: Then it means that it was a failure of the application of those checks or the failure in the law which helped him in this.

SHRI TALWAR: In a banking institution, the loss or the bad debts arise mostly on account of advances or forgeries forged signatures applied on cheques which are passed for payment.

SHRI A. N. MULLA: I put specific questions. If you cannot answer those questions in a specific manner, I will be satisfied. My very specific question is that the embezzlements that occur, they can be either due to the non-implementation of the checks that exist or the checks are insufficient.

SHRI TALWAR: Well, it is difficult to give a straight answer, whether the introduction of extra checks would stop these. It would also be relevant to consider whether the cost of introducing extra checks would not be more than in writing off some bad debts here and there.

SHRI A. N. MULLA: Therefore, now you say that extra checks may not be good because the cost of introducing those checks is not desirable.

SHRI TALWAR: May not be commensurate to what we are trying to

aim at. The existence of a check even by the C. & A. G., may not prevent the embezzlement that you are referring to.

SHRI A. N. MULLA: Embezzlements would never stop. We know human nature. This corruption would never stop. The purpose of bringing forward a bill or any other restriction is to plug the loopholes that exist, and to think of appropriate measures if the existing law has not been sufficient to achieve the end. That is why this authority is meeting here to make suggestions if further checks may be provided so that in the existing situation, we may be able to meet the challenges of the existing inadequacies. That is the purpose of this meeting and that is why it has been suggested that some new type of control and checks should be introduced in carrying out the audits of these banks.

SHRI TALWAR: As a business representative, it has been my view and I repeat it that addition of one check followed by another check does not necessarily meet the aims and objectives we are having before us. In fact, too many checks have been responsible for non-implementation of instructions and for indifference to implementation of instructions. When there are too many checks and a number of procedures that I am asked to follow, I find that implementation of the instructions would not give me one spare moment in 24 hours. The result is that I am indifferent to the instructions. The instructions should be such as are capable of implementation. We have got in force statutory audit and a provision exists in law that the Government may appoint any one to conduct audit. I feel, nothing more should be done. But if it is necessary and if you feel that further check should be there by way of enabling the C.A. & G., to conduct the audit. I again repeat that let that be in specific circumstances.

SHRI A. N. MULLA: Is it the word of the law that stops the corruption or is it the human material that brings a stop to corruption.

SHRI TALWAR: The word of the law does not stop corruption.

SHRI A. N. MULLA: This is the first time that you have given a specific answer to my question. Then we have to deal with the human material. Is it a fact that a person in whom confidence can be reposed that he would be a man of integrity, there are greater chances that when he supervises the proceedings, then the corruption might be stopped than a person who cannot be equated with him so far as the normal concept of integrity and independence is concerned? There may be subordinate officers also who are very honest, who are very independent, but the Auditor General is a man of independence and integrity and on whom we can rely. His supervision would perhaps act as a check to stop other persons, if they are inclined to corruption.

SHRI TALWAR: Then should we not do away with the statutory audit if the powers of the C. & A. G., can be enlarged to cover the audit of all the public institutions?

SHRI A. N. MULLA: The Auditor General cannot divide into thousands of persons; he would be at the head of the supervision only. He cannot do audit everywhere. He will interfere when he feel the necessity. Why are we appointing Lokpals today? If the laws are followed by the people, if the people are honest, where is the necessity to appoint them? Similarly, a high officer of the rank of the C.A.G., inspires confidence and if he keeps a vigilant eye there would perhaps be a lessening of the loss of public funds, say, by embezzlements in banks, etc.

SHRI TALWAR: The introduction of check by a superior authority may not result in the stoppage of embezzlements.

SHRI A. N. MULLA: I am not saying so. It is a method which may check a little. We only hope that it may check it a little, not that it would be stopped completely.

SHRI TALWAR: We have also to ensure that we do not inhibit the growth of banking companies by introducing a third check.

SHRI A. N. MULLA: Do you believe that the secrecy of the banks should be maintained. Once banks have been nationalised, they are public funds. Is it proper that what is happening to public funds should not be supervised by the representatives of the people at any stage?

SHRI TALWAR: I answered that question before. I advocate full disclosure of the results. I cannot do it unilaterally.

SHRI M. ANANDAM: If we authorise the C. A. G., to do propriety audit would it in any way affect the dynamic approach of the banks towards the problems of the rural areas? In other words, how will it affect the working of the banks?

SHRI TALWAR: If I have understood the question correctly, your point is whether the introduction of the C.A.G., audit would stifle initiative in banks in giving loans, particularly loans of the type that are now being advocated. My note explains the position that if at all something fresh is introduced at this stage, it should be done in such a manner that it does not stifle initiative. I do not think that propriety audit by itself would stifle initiative; if secrecy is maintained by the C.A.G., and if propriety audit means going into the merits of each proposal and seeing the documents in respect of security, etc. I think it would be the right type of audit. I would welcome even statutory auditors enlarging the scope of their audit to cover this because

the type of banking business is changing very fast. I have been in the banking business for the last 26 years and I feel that the changes that have taken place during the last five or ten years have been more than during all the earlier period. The concept of audit also changes; they see not only the security aspect; there are other aspects that are being taken into consideration.

SHRI D. N. PATODIA: At present various banks take independent decisions with regard to independent proposals. At times decisions are taken on the spot without going into a full investigation of the case which would involve months and months. Yet the fact remains that the overall functioning of banks is good. Do you feel that if the element of C.A.G., audit is introduced, the process of taking decisions on the spot will be adversely affected and the officers would take 2, 3 4 or 5 months to take decisions and to that extent progress would be retarded?

SHRI TALWAR: On the spot decisions are different from ad hoc decisions. A decision may be taken on the spot after considering all the relevant factors. It is possible that detailed investigations of each and every aspect are not done and are postponed until some further time. It is expected that in granting loans even where decisions are taken on the spot they are supported by recorded facts which would justify the grant of that loan. Propriety audit, in my view, would examine whether on the spot decisions when taken are supported by these and are not ad hoc decisions and to that extent it is all right and would not stifle initiative. If it encourages those who take ad hoc decision into on the spot decisions on a proper analysis, may be even incomplete facts, it would be a step in the right direction. This is the kind of system we are ourselves attempting to devise over a period of years; decisions are taken quickly

wherever necessary but they are not ad hoc decisions.

MR. CHAIRMAN: You have stated that you have a special branch for inspection and you have so many circles at present. What is the strength of your inspection department?

SHRI TALWAR: I do not know the exact number. There are about 30 or 40 officers in the inspection and audit department in the central office. These are officers who are deputed to go to branches by surprise. In addition to this every circle organization has its own independent circle audit cell which is used for conducting surprise checks wherever it comes to their notice that there are some serious complaints; these teams are sent from local head offices to make on the spot enquiries. Circle audit cells, in addition to making investigation into such complaints, also periodically visit branches to make enquiries about transactions. But the main inspection is from the central office organization.

MR. CHAIRMAN: You have mentioned about officers. When you send an officer to Bengal, then the question of Bengal not being there does not arise.

SHRI TALWAR: Although officers are working in the Central office, they come from different places, and we do not give an assignment of inspection or audit for more than two or three years at a time to anybody because it is a very arduous work. For all the period they are on duty, they are deemed to be literally on the road because they have no headquarters as such. The headquarters is Bombay only technically, but they never come to it except for routine enquiries and consultations. They are always on the move from one point to the other in the area that has been allotted to them. Then they go back

to the circle. When I said that an officer goes back to the circle after the inspection, what I meant was that he was sent to the other circle, and not, say, to the Bengal circle.

MR. CHAIRMAN: They are expected to work in a limited number of areas.

SHRI TALWAR: For two or three years at the most.

SHRI DINKAR DESAI: You have 30 officers. What are Inspectors and Deputy Inspectors. The Inspectors would be I grade officers and the Deputy inspectors would be Grade III officers' rank. They are deemed by us to be senior officers.

MR. CHAIRMAN: They have their staff.

SHRI TALWAR: They have one Assistant each. Where the work is more, we attach more Deputy Inspectors to one Inspector.

MR. CHAIRMAN: But they will have their establishment in the Central office. The establishment may continue.

SHRI TALWAR: We have the Chief Officer of the Inspector and Audit Department. He has a number of officers to assist him. The reports go to them. They are processed and immediately after the reports are received, a synopsis of the major issues that have been thrown up is put before the executive committee of the central board.

MR. CHAIRMAN: From your experience, could you tell us about the efficacy of the department? How does it help you? Is it merely a deterrent thing or is it detecting something? In how many cases have you seen detections which save the banks from a lot of trouble later on?

SHRI TALWAR: There have been cases where the inspection depart-

ments have disclosed irregularities which do not earlier come to the notice of the local head office. There are shortages in cash for example: shortage in stocks that are hypothecated or pledged to the bank; serious irregularities in procedure that could land the bank in serious losses. All these have come to the notice including faulty documentation in advances which can land us in trouble.

MR. CHAIRMAN: When was the department set up in your bank?

SHRI TALWAR: It was started in the old Imperial Bank; it has been strengthened to meet current requirements.

MR. CHAIRMAN: You said that statutory auditors may be given additional powers to go in for propriety audit. At present they are qualified to do a certain job. Do you think that the present statutory auditors will be able to do this job of looking into the propriety of advance, or do you think they have to be given special training and have special qualifications?

SHRI TALWAR: I think they are quite competent to handle this work.

MR. CHAIRMAN: You have said in paragraph 6 of your memorandum that "In this connection, it may also be pointed out that there is a provision in section 41(9) of the State Bank of India Act.....for the Central Government to appoint at any time such auditors as it thinks fit to examine and report on the accounts of these banks." If this is the provision, your contention is that the Central Government can at any time appoint the C.A.G., as the auditor. Will it mean that a special amendment will be necessary?

SHRI TALWAR: No amendment is necessary? Any auditor

would even include the Comptroller and Auditor-General. For this purpose, they do not have to consult anybody. They can ask the Comptroller and Auditor-General to go into the cases.

MR. CHAIRMAN: So, according to you, do you think that the present position and the safeguards are adequate? Only a change or rather the enlarging the provisions in certain directions is necessary. Is that your contention?

SHRI TALWAR: An enlargement of the existing provisions may be relied upon to introduce what you feel should be introduced.

MR. CHAIRMAN: You also agree in paragraph 9 that since the major commercial banks have been nationalised, "Parliament has necessarily to be satisfied that these institutions function effectively and an enabling provision for inspection and audit by the Comptroller and Auditor-General under specified circumstances should be a step that should be acceptable." But your suggestion in paragraph 6 is different.

SHRI TALWAR: They are apparently inconsistent, but they are not. What I said was that the law provides for it even now. But if you want a provision in the Bill, it would be acceptable in these circumstances.

MR. CHAIRMAN: The existing provision is not implicit but is only tacit. If Parliament has to be satisfied, and when one wants to make it implicit, what is the amendment you would suggest?

SHRI TALWAR: If you want to amplify it in the Bill that you are examining, the provision which enables the Auditor-General to look into the accounts of such financial

institutions may have a rider specifying the authority who will decide the circumstances in which this could be done.

MR. CHAIRMAN: Thank you very much, Mr. Talwar.

(The witness then withdrew)

II. Shri T. A. Pai Chairman, Life Insurance Corporation of India, Bombay.

(The witness was called in and he took his seat).

MR. CHAIRMAN: Mr. Pai, we are glad to welcome you. Before we proceed with our business, I would draw your attention to rule 58 which lays down that 'it shall, however, be explained to the witnesses that even though they might desire their evidence to be treated as confidential, such evidence is liable to be made available to the members of Parliament. So there is nothing confidential about your evidence. You have submitted a very brief Memorandum. But we would have liked you to make it a little more elaborate. We would like to benefit by your experience as a banker, as Chairman of the LIC and in other fields, in regard to the suggestion that we have made in our letter. Over and above what you have said already, if you would like to add something to it it would be welcome.

SHRI T. A. PAI: Perhaps as you know, I was the first Chairman of the Food Corporation of India. I was associated with it at the time of its formation. When the Bill was being drafted, this question was discussed along with some other problems that the public sector undertakings were facing, particularly when they were required to deal with commercial transactions on a large scale. It was also discussed at that time as to whether they should be run on business lines or should be made subject to the inspection and control of the Auditor-General. Ultimately, it was decided that it would be better if the Food Corpora-

tion is allowed to function in the way that we had envisaged, i.e. it should be kept outside the purview of the Auditor-General. Now because we have to engage ourselves in something where decisions have got to be taken quickly if you have to achieve certain results, if motives are going to be questioned long after the transaction is completed, i.e. after a lapse of time, it will be extremely difficult for people to exercise their discretion. Now I have been looking into the fact as to why rigidity has come into the operations of the LIC. When I went into the question of large number of outstanding claims and also the complaints that the claims were not being settled in time, I found that the complaints arose in the case of the so-called short claims. Short claims are those which occur within two years after the policy is taken. Now the presumption of the Corporation has been that nobody should be allowed to benefit by an act of dishonesty—and it would not be in the interest of the honest policy holders—which means that everybody who dies within two years of taking the policy must be dishonest and we should go into those claims with that presumption. The plea of the Corporation is that 'after all, over a period of four years, we have rejected only 11,500 claims, amounting to Rs. 1.5 crores, and this is hardly 1.5 per cent of the total claims settled'. So I have been telling then—now they are coming round to this viewpoint—that we have to accept the responsibility of being the trustees of all the widows and children until an act of dishonesty is proved because this is an area where decisions have to be taken even though under a particular condition a claim may have to be settled or not later on. Very often we will have to see that we look to be fair to the policyholders, because every rupee that we forfeit this way is a source of profit for the Corporation and if we do it unjustly saying 'of course' people have a right to go to the court—may people have gone to the court also against the LIC', I think that will not

be fair, I think it is a futile exercise for small policy-holders to fight a big Corporation like the LIC. While this is my view, I have come across instances where officers, who have used this discretion, have been punished, have been bypassed and who have lost their promotions, and all that because the Internal Auditor pointed out, after a lapse of time, that this man should not have passed a particular claim. This has been done in spite of the superior officer of the person concerned upholding what he has done. Now I have to take the trouble of convincing the Internal Audit Department to take a favourable view of those things and lay down a policy of what we want to do so that it may be carried out throughout the organisation, unless there is evidence that a decision is mala fide or has been taken with ulterior motives.

So, I have been feeling that if we are to subject ourselves to the rigid control of the Auditor-General, I am afraid, we would not be able to take decisions at all and things will become much worse. Very often the outside criticisms also make an organisation very rigid in its attitude and it becomes defensive in taking decisions. We have had, for some years now, a General Insurance Department. Here we have to compete with the other General Insurance Companies. Apart from the public sector business which is to be compulsorily placed with us and apart from the tide up business where we advance money by subscribing to the capital, when we entered the general market for business, we have not been able to do well. The LIC's resources should have enabled us to capture a larger and larger share of the insurance business, but we have not succeeded, whereas our subsidiary, the Oriental Fire and General Insurance Co., which is more or less functioning like a private sector undertaking, where the rigidity has not set in, has been able to compete with the general insurance companies effectively, because the people are satisfied with their experience of settlement of

claims etc. by them. So if you want these organisations to discharge the obligations that have been cast on them, I am afraid they will have to be allowed them to function like business institutions. Again, the LIC, which has been functioning outside the country also—we are operating in Malaysia and in some African countries—in fact there also, we are losing about Rs. 50 lacs every year and the total business that we have got there has not exceeded more than Rs. 10 crores a year all these years. It is because we have to face competition from other insurance companies. But here in India, where we have a monopoly so that whatever we do people might put up with it, I am afraid, this monopoly factor also comes in the way of our getting increased business. But for this monopoly factor how far we would have gone, we are not sure. But I think our business should have been of Rs. 2,000 crores per year and not Rs. 1,000 crores as at present—we set this target for 1964. The whole organisation itself is suffering from so many difficulties as a result of this. It has stopped its growth somewhere. So, I believe that the rigidity, as it exists, is enough and it has got to be removed and in my opinion these controls are going to make the functioning of the organization difficult.

SHRIMATI JYOTSNA CHANDA: I want to know from the Chairman, LIC whether the efficiency in the L.I.C. has gone down. People say that they do not care.

SHRI PAI: We are settling about a thousand claims per day all over the country. I have received very complimentary letters also when the claims are settled, but I am also particular about the claims that are not settled. 1,20,000 claims are outstanding for about 24 crores of rupees. I have been going into these claims. 50 per cent of them are for less than 2,000 rupees and then another 20 per cent are between two and five thousands of rupees, which

means that it is the smaller people who have been suffering most and larger claims are, more or less, promptly settled because the people have got the means to get them settled.

I have looked into the complaints. On the part of the Corporation, of course, they have a case. They say that some of the policies are paid up for small amounts and then on account of the partition of the country and all that, policies—are paid up and we had lost touch with our policy holders, but that comes to about 14 per cent of the claims. I have now directed that these 14 per cent may be kept separately and we should not worry about these, but let us go ahead with the settlement of the other claims. I have waived the admission restriction also up to 10—15 thousand. The powers have been decentralised and I have given a call to them that within 3 months all these claims must be settled. Not only that, we must get into the habit of settling the claims prompter it is also equally important.

We have a complaint section at the headquarters, where we receive 28 thousand complaints per year and at the divisional headquarters some 63 thousand complaints are received. sometimes these are placed before the Board to show that an improvement has been made. But I have been arguing with them that the people must be tired of complaining and so the number has gone down. Why not we have a complaints administration?

Not only the settlement of claims, a considerable inefficiency has set in in the Policy Holder's Servicing and the payment of commission to the agents. The number of people insured at present is not more than a crore and if this number is to be doubled, we think, there would be a breakdown because the efficiency is allowed to suffer even at this stage. We are trying to look into these things and see how to cope up with this situation.

SHRIMATI JYOTSNA CHANDA: Have you thought of any proposal or measures to cope up with this situation.

SHRI PAI: At present, we are looking into all our rules and procedures for this kind of rigidity at various points. Secondly, we have taken a decision to decentralise all the functions of the policy holder servicing at the branch level and divisional level so that central office concerns itself with policy matters, investment and other aspects of working. More and more powers have been given to the people working at the field level so that they might be able to render better service. There are not only these problems, lots of other problems are also there. Now the number of agents, for instance. After all, they are the source of business. In the course of these 14 years, 8 lakhs of agents were appointed, six lakhs have left. It is a stream of people coming in and going out. As a first step, we are trying to create a stable agency force. I think, it is our responsibility to build insurance as a career in this country. I am trying to see that no agent is appointed unless there is an assurance of continuing of business. We want to make it a little more attractive by giving them fringe benefits at the time of retirement, so that the people might have a continuous interest in building up their career.

If our total funds are invested, more carefully, I think, it would have made all the difference. Even with 1 per cent improvement in our return, our surplus would go up by 15 crores per year. Within the statutory limitations that have been placed on us, I think, our investment requires a continuous look. I was surprised, our investment on buildings gives us a return of 3.5 per cent. I had called up for figures of buildings which give us less than 4 per cent and which give us more than 4 per cent. I was shocked to find that

536 buildings which have an investment of 23 crores give us a net return of 1.5 per cent. The old rents have been fixed statutorily, we cannot increase them. The buildings, being ours, we have to take care of their maintenance. Recently, I received a complaint from somebody that his roof is not all right and the Chairman should look into it. We have set up recently a separate department for housing and mortgage development. We want to hand over these buildings to them and see if by converting them into cooperative societies, we sell the buildings to the tenants and recover our capital cost so that we might use it for other purposes.

So, I think, there are so many aspects of our working calling for detailed studies and it would be difficult to sit on judgment what has been done in the past. In a business concern, it is a continuous process of looking into things and trying to improve matters.

MR. CHAIRMAN: Are the tenants in the L.I.C. buildings private parties?

SHRI PAI: Yes.

MR. CHAIRMAN: Which are the cities?

SHRI PAI: Bombay and some other places. When the old companies were nationalised, all their buildings became part of the L.I.C.

MR. CHAIRMAN: You said that so many claims have been outstanding. I would like to know whether the amount of policy claims not being decided has increased after this nationalisation proportionately or you think, it is just the same.

SHRI PAI: It is difficult to say. When the companies were in the private sector one of the top points emphasised to the policy-holders was: "our company has a very satisfactory

claim settlement record; we give you better service than the others." Now we do not have to talk about those points at all.

MR. CHAIRMAN: You must have some data or past averages. Some company like the Oriental might have been more efficient and there might have been another company which might have been at the lowest ring of the ladder. Can we not have an average of that time and the average of today? That would show whether we have deteriorated or not.

SHRI PAI: I would not say that we have deteriorated in that sense. This is a public sector undertaking and it has a monopoly of insurance. It has got to have a different attitude and there is an obligation on a public sector undertaking. Formerly people could go to court; now also they can. But formerly there was public opinion which frightened most of the companies from doing what they liked. In our case if one judgment went against us, we can afford to go even to the Supreme Court but it would be a harassment to the ordinary policy-holder if we did not take prompt action.

SHRI D. N. PATODIA: Sometime back you said that the total number of claims pending was about 1,20,000. Could you give us corresponding figures of pending claims in 1956, just before insurance was nationalised, and then in 1960, and in 1965. That would give us a clear picture whether it has improved or deteriorated.

SHRI PAI: I remember to have seen in the balance sheet that it has been a constant percentage—claims outstanding. Out of the number I mentioned, about 36,000 claims are outstanding in the eastern zone alone.

SHRI D. N. PATODIA: If the percentage is constant, it only means that in terms of absolute numbers or the amount involved, it is more than the previous year.

श्रीमती संगम लक्ष्मीबाई : आपके इन्श्योरेंस में इन्स्टालमेंट में ज्यादा पैसा देना पड़ता है। समझ लीजिये कि किसी ने 5 हजार की पालिसी ली, परन्तु 5 हजार के बजाय उसको छह हजार रुपया देना पड़ता है। यह क्या बात है ?

SHRI PAI: I think her point is that you get less than what you pay. But insurance is meant to cover risk and those who live pay for those who die. So, one cannot think of a big profit. Insurance as an investment may not be attractive compared to other investments. That is why we have now appointed a committee to go into it to see whether our investments require to be looked into because with improvement in mortality rates among the people, the concept of risk has gone into the background and people expect better returns from investment in insurance. Naturally they are asking for a higher bonus. We are considering how we could make insurance more attractive by trying to improve our surpluses.

SHRI C. D. PANDE: There is a general complaint that the expense ratio is going up and insurance has not progressed as it should have and that it is stagnating at a certain point. What are the causes? Is it high premium or unsatisfactory service?

I presume one reason why insurance is becoming less and less attractive is inflation. The purchasing power of money is going down every day. If I insure for Rs. 10,000 today and begin paying premium, when I get it back after 15 or 20 years its value is much less; it is sometimes worth just half of its value. Have you ever analysed this position?

SHR PAI: Some countries like Finland and Israel have introduced index linked policies by which an insured does not lose by insurance. I

do not think it is possible in India. Unless we have such control over prices, it would be difficult for us to link it up like that. We cannot assure people that after 10 or 15 years. What the value of rupee is going to be. I think what is true of life insurance as an investment is true perhaps of any other investment. Even if you keep a deposit in a bank, the value of the money is may not be the same after 10 years. So, I have been asking the people one thing: "I get complaints that the premiums are high. And they have not been increased, I said, I say this is the only thing that is available at the old prices; while all the other commodities have gone up in price, the insurance premium has not been increased.

Secondly, I can say this about the expense ratio. I have gone into all the various reports. There has not been a real suggestion as to how the expense ratio can be controlled. Some people say that the Life Insurance Corporation has more officers than necessary; some people might say it has more staff than necessary. But the wages that we have been paying are also much less than what banks have been paying, and therefore, the industrial relationship in the Corporation has been rather very bad. Everything is related to expense ratio. That is why I said if our business had gone up to Rs. 2,000 crores the health of the organisation would have been entirely different. Stagnation has come within the Corporation or sometime now. We take more pleasure in closing down offices than opening offices. Even at present, 30 districts in India do not have an office of the LIC. We do not function in Andamans at all though some of our banks have already gone there. The Life Insurance Corporation is supposed to belong to the whole country but the country does not seem to belong to us. So, if we have to expand geographically also to carry out our function, it would mean expenses.

Again, when this question of expansion is to cover all sections of society, to cater to all sections of society, our defence would be that we do not have the mortality experience for certain sections. We had a proposal for covering the conservancy staff at the Bangalore Municipal Corporation with group term of insurance. The office said we do not have experience of the morality of this group. The morality rates that we have are for the better class of people like us. So, I asked, who would have experience of these types of people except the Life Insurance Corporation? These are the people who wait for social security. I believe that it is inevitable that if insurance has to be extended to all sections of society, the better class of society will have to suffer either by a reduction in bonus or continuance of the present rate of premium because you cannot expect me to bring down the expense ratio, you cannot expect me to increase the bonus, you cannot expect me to decrease the premium, you cannot expect me to keep my staff content by paying them wages that they expect us to pay; all these things cannot be done now. So, if our objective is to cover a large number of people, I have now been asking my office to introduce the group insurance policies on a large scale. We had a proposal from the Kerala Government whether their fishermen could be insured. The only thing that I have now told them is, why not we accept this risk up to Rs. 1,000 for an individual as the maximum. If we can cover 50 lakhs of people through group insurance, people who are working in the municipal establishments, public sector and the private sector, as groups, we shall be carrying out our objectives, this is not a source of investment. This is only a risk Insurance.

SHRI A. N. MULLA: In connection with the questions that are now being put to you, when the policy matures and the value of money is

decreasing, is it a fact or not that the delay in payment adversely affects the interests of the policy-holder?

SHRI PAI: Any delay in the disbursement due to causes for which the Life Insurance Corporation is responsible is also beneficial to the Corporation because it earns on that account which does not belong to it. So, we have now decided to pay six per cent interest. My point is this. The fall in the value of money and delay in payment are not related. All that you can say is that when I do not pay in time, we are depriving the policyholder, of his monies, but now an interest of six per cent is allowed on that score.

SHRI A. N. MULLA: I was going to suggest this as a safeguard, but you yourself have mentioned it. The other question arises: who decides whether it is reasonable delay or it is inordinate delay and not a reasonable delay? What are the criteria?

SHRI PAI: You will realise that in most of the cases it is the Corporation which decides. Ultimately, the Corporation can always say that this paper or that paper has not been submitted and so on, and the delay is on account of that. The interest was imposed as more or less a punishment on the Corporation to see that the claims are settled soon, but unless the very attitude of the Corporation changes, and they feel that it is our primary obligation to settle the claims promptly, none of the other things of a punitive nature are of importance.

SHRI A. N. MULLA: You being an experienced officer, does it not strike you that where the bigger claims are more readily settled, the greater amount of delay is in the smaller claims,—does it not strike you—that this might be due to corruption?

SHRI PAI: May I say that delay in the disposal of papers, delay in the settlement of claims of any type,

might give scope for corrupt practice. But to say that this has been delayed because corruption is on a large scale would also not be very fair. Some instances have been brought to our notice, but it is very difficult for me to prove them.

SHRI A. N. MULLA: Perhaps my life has been spent in a particular way. I sense corruption anywhere. The red tape is another name for corruption. It is always the corrupt methods that give a greater colour and puts in a greater amount of red in the red tape. Otherwise it will be a pink tape. It becomes redder and redder because of corruption.

SHRI S. S. KOTHARI: In this Committee we have been trying with an open mind to arrive at a conclusion as to how and to what extent the Auditor-General should be given powers, if any, to probe into some of the transactions of certain corporations which have been so far exempt. We examined the witness from the State Bank of India. There are others who will also be examined including the Atomic Energy Commission and the Reserve Bank and also Air India.

Now, with regard to the Life Insurance Corporation,—we put certain questions to the Chairman of the State Bank on loan and investment—there must be relevance in respect of loan and investment also. You have the statutory auditors who conduct the audit which is more in the nature of arithmetical accuracy of audit and also a voucher audit, and within the scope of their statutory limitations, they exercise their function quite efficiently. With regard to proprietary audit, I believe the statutory auditors do not have any obligation under the Life Insurance Corporation Act or the Companies Act; as far as we know, that aspect is neglected. For example, take an investment that has been made in a certain group which may be 'X', which may not enjoy a very good reputation and about which there may

be a feeling that they are not conducting their affairs very satisfactorily. Now a Statutory Audit probably see the Board Resolutions and Committee Resolutions and pass them as being in order and generally they may also see the market value also and they may find that the state of affairs is all right. The proprietary aspect may be questioned by an authority like the Auditor-General as to whether investment should at all have been made in such and such company which from a long range point of view may result in losses to the Corporation. Then, with regard to loans it is possible that on the basis of credit-worthiness it may be felt that the loans should have been 20 lacs but the loans may have been made to the extent of 30 to 40 lacs. There again your Statutory Auditor may not object. But whether you are following the norms or conventions that may have been there, with regard to that your statutory auditors may not object. In view of this, would you agree that the Auditor-General should have power not that of a routine check every year, but let us say, he may have power to make certain checks under (i) specified circumstances, (ii) where in his discretion he feels, say over a period of two or three years, that he should make certain test checks into the loans and advances, for example, of the Life Insurance Corporation or of the State Government. Do you feel that will hamper your activities? The Committee will like to have your views.

SHRI PAI: A public institution should not mind being looked into by anybody. That I am not at all bothered. The Life Insurance Corporation has been subject to a check of this type by various Estimates Committees of Parliament and I think they will continue to do it. So far as the actual investments are concerned, today all investments are required to be looked into by a Special Investment Committee appointed by the Board on which there are even one or two outsiders and all the guidelines that are now

laid down from time to time, we are trying to fulfil to the best of our ability. But if you are now to question the motive of a particular investment

SHRI D. N. PATODIA: Not necessarily the motive. It may be an error of judgment, or norms not being properly observed.

SHRI PAI: The difficulty is to define what is an undesirable group. We have to look into the management of the companies. If the management is good, we invest. And sometimes if the management changes by somebody taking it over, our interests may be in jeopardy. Today through the Life Insurance Corporation has an investment of sometimes 20 per cent or 30 per cent in companies, we cannot do anything more than making a little noise in the general body meeting. At the most we can ask for representation on the Board. But ultimately, unless we go a little step forward of even compelling the Management to change, it will not be possible for us to act in the way we would like to do. This is a matter of administration. Life Insurance Corporation has been accused of helping monopolists or of building up monopolists. Our open market purchases may be treated separately from what we give them directly. Today if we want to invest in equity shares, naturally we will have to prefer companies which are well-managed, giving good dividends. Some of them are within these monopoly groups. Now on ideological grounds, should we stop investing in this and if we acquire the shares, should we also be condemned of encouraging the monopolies? We give them loans initially for expansion. If we make later investments in them, we do it purely for purposes of getting a good investment for us.

SHRI D. N. PATODIA: My point is If you feel that management of a particular company or group is satisfactory and in that even some invest-

ment may have been made, there a person like the Auditor-General can investigate things which the Statutory Auditor would not do. That is what I had in mind.

SHRI PAI: Don't you think that the Estimates Committee also go into all this periodically.

SHRI D. N. PATODIA: How far the Estimates Committee can go. We have an open mind on this issue. The very reason why we are collecting evidence is that we want to arrive at a decision.

SHRI PAI: As a business institution we buy shares, not necessarily to lock them up, but we must also have a right to sell them. If the shares do not give us a good dividend and we feel that they should be sold off, we should be able to sell. But now we are afraid of selling because our parting with a group of shares will result in somebody acquiring control of a company. Now people find fault with us for selling the shares and a fault can be found with us for even selling the shares when the market is high. This is what happened in the case of National Rayon shares.

MR. CHAIRMAN: How much time did they take in this transaction?

SHRI PAI: I do not know. But I read in the newspapers that they took one day. I have now given instructions to stop selling because these marginal holdings that we may have might change the structure of the companies.

MR. CHAIRMAN: You have said in your document that if we give it to CAG then delay in settlement of claims might result. But what we have said is in regard to loans and investments' policy as to whether we can bring it under the control of CAG or not?

SHRI PAI: Well, periodical review—there should be no objection.

MR. CHAIRMAN: For example, in the case of Kapadias, by purchasing

so many shares, they got control of the organization which has got 30 crore and which they may use for purchasing another one. Like that, if there is a check, you would at least know, otherwise the public would not know at all. This is what I know about Kapadias. They got preference shares and they got the right to vote and got the control.

SHRI S. S. KOTHARI: Preference shares have got the voting right?

SHRI PAI: Yes. In some cases.

MR. CHAIRMAN: Now our business is taking different lines; formerly L.I.C. was having a limited type of business. Now we are there as an investment institution, financial institution and we are going to invest money in the open market—purchase shares and sell shares—and this is likely to be abused because of wrong judgement. The check by C & A.G. might have a deterrent effect. This is what our anxiety is. Your document is a small one and you have an objection to this.

SHRI PAI: So far as the L.I.C. investments are concerned, it must be a public document and I have seen very often the L.I.C. has taken a stand that investments cannot be disclosed, but personally I have no objection to anything that we do being discussed openly and the public kept well-informed. There is nothing like secrets as between ourselves and public as may be in the case of banks and their clients.

SHRI D. N. PATODIA: You have made out a case in your note that extension of C.A.G.'s audit to L.I.C. would be harmful because it would have the effect of stifling the initiative of your officers and exercise of discretion by them which is so important in your business. While bringing forward your arguments you have suggested that the business should have been 2000 crores as against 1000 crores and there are so many difficulties with

regard to settlement of claims and service to the policy holders. You have given two reasons for it. First, in your view, internal audit is somewhat responsible for raising many types of objections, which according to you, should not have been raised and which curb the field of the Corporation in practice and secondly, some sort of improvement you want to envisage and measures you propose to take by which you hope the business will go ahead.

While reading this note, I had a feeling that you appeared to be somewhat opposed to the very concept of a nationalised Corporation, because once you said 'nationalised', you have possibly avoided certain amount of control—direct as well as indirect. Now that is the point, but nevertheless, if you feel that internal audit has been responsible for losing of initiative and for converting your business to un-businesslike, then is it your case that by introduction of audit of C&A.G. it would become still more un-businesslike? If it is so, what are the factors? As far as I understand, you are going to introduce such element particularly to the service of the policy holders.

SHRI PAI: I am not saying that because the Corporation is in the public sector, it should not be subject to the C. & A.G.'s control or anything of the sort, but I am only pointing out that it is inevitable that control should be there if it is a public Corporation, but if the control is of an imaginative type, then it is different matter.

SHRI D. N. PATODIA: Would you kindly explain by giving illustrations?

SHRI PAI: Our internal audit, which we have in addition to the inspections, has questioned the discretion used by the officers. This is coming in the way of sometimes prompt settlement of claims. Here, at

least the Management could also look into how far the auditors are also justified in taking this position and see that our rules are such that they are framed clearly so that even the internal auditors would be able to appreciate the decision rather than object to it, but I do not think that it would be open to others to give such directions to an outside authority.

SHRI D. N. PATODIA: Do you mean to suggest that internal auditors give direction?

SHRI PAI: Not that; it is the question of interpretation.

SHRI D. N. PATODIA: Is it doubtful that C. & A.G. would not be able to give that direction?

SHRI PAI: It is the audit that they are more worried.

SHRI D. N. PATODIA: Could you specify the areas where by such introduction, you feel, difficulty would be experienced?

SHRI PAI: I was telling you so far as the claims are concerned. The activities of the Corporation are manifold. So, if it is investment and you want to have some kind of a test check and all that, I have absolutely no objection. When I mentioned my point, I was more worried about day-to-day administration regarding the settlement of claims by the entire machinery at various levels.

SHRI D. N. PATODIA: There is already a provision in the Act by which Central Government has powers, whenever they feel necessary, to appoint auditors to inspect your books. Would you consider that the present provisions are adequate and there is no need to make another provision?

SHRI PAI: I think so.

SHRI S. S. KOTHARI: It is only when the Government asks them that

they look into that. It is not his own discretion that every three years or five years, he may inspect. That power has never been invoked in the past.

SHRI PAI: If it has been incorporated it is for the Government to invoke it at any time. It should not be a routine affair.

MR. CHAIRMAN: Not routine but discretionary. Government has discretion; so also the CAG may have the discretion to go and see when he feels necessary.

SHRI D. N. PATODIA: India is not the only country where insurance has been nationalised. There are a few other countries also. Could you enlighten us as to the method of governmental checking and audit by Government agencies in other countries in respect of such business?

SHRI PAI: I have not made a comparison. Only recently Asian countries have begun taking decisions, as well as African countries, to nationalise insurance business. In Uganda recently they have said that if we wanted to function there we should have a separate corporation registered there; sixty per cent of the capital would be with the Government without their subscribing anything but which should be made good out of the profits in subsequent years. Burma is also another country; Ceylon is yet another; in fact our officers are helping some of them to run the nationalised concerns.

SHRI D. N. PATODIA: You are aware that in respect of banks there are some transactions which are of a confidential nature and which the bankers would not like to disclose to the public. That is one of the reasons why bankers say that the control over audit by CAG should be avoided or should be kept at minimum as far as possible. Do you have any such reservations? Are there any activities of the LIC which you want to be kept a secret?

SHRI PAI: I do not wish to do that; in fact I should like to see that all the activities are given the fullest publicity. If I know that the public is going to sit in judgment over every aspect of our activities, the attitude of the management would be so conditioned.

SHRI D. N. PATODIA: Why are you then afraid of CAG?

SHRI PAI: CAG is not the public. I do not also know what is going or what is sought to be achieved by CAG's control, I would have no objection if it is revenue, for investments also I have absolutely no objection. But if every decision of ours is to be questioned by the auditor, then it is something which is not desirable.

SHRI D. N. PATODIA: The extension of the audit by CAG would include some propriety audit. So long as there is no motive on the part of the CAG to find fault with your working, so long as he tries to make a proper analysis to see what was wrong and what was right, you have no objection?

SHRI PAI: I have absolutely no objection.

CHAUDHURI RANDHIR SINGH: You were referring to the group insurance scheme for fishermen of Kerala. Have you got any janta scheme of insurance for people in the villages which could be covered by payment of premium by gram panchayats? Secondly, is there any rural wing of the LIC which could carry the message of life insurance to the half a million villages in our country?

Thirdly, people in the villages have irregular incomes. One year the monsoon may be good and they may grow good crops. Second year, there may be floods or famine. Is there any scheme by which they can adjust their premia accordingly? In a year of good crops they may be able to

pay premium; in the year of famine or floods they may not be able to pay the premium. Do you have something in mind as an incentive? If the kisan or the Harijan does not pay for four or five years continuously, and if there is a lapse, due to the loss in his income, can you give an incentive that the entire premium paid by him would not lapse or it could be revived without any sort of fine or penalty for default?

Lastly, do you have any scheme in the rural areas? Just as the own your house scheme in the towns, do you have any such scheme for the kisans in the rural areas? That would be a sort of incentive. These questions may not be very pertinent to the Bill, but since you are here, I want to have some information on these points.

SHRI PAI: We have not got a separate wing called the rural wing, because it is difficult to go on defining or dividing the country into rural and other areas. Even then, if we want to maintain the figures for rural business it is easy. An agent can simply write that this business is from the rural area. So, what is of the utmost importance is to see that our area of activity is extended geographically to cover larger and larger areas in the country, catering to all sections of the people.

I was mentioning to you the instance of the fishermen. We are also tackling some of the co-operatives to see why the group farmers should not be covered through their co-operatives. One of the suggestions that we are now working on is, why we should not extend what is known as the group term loan insurance to farmers who are going in for tube-wells or tractors. I mean a long term loan from either a co-operative institution or from a bank. The insurance figure goes on reducing, and if at any time, before the payment of the debt, there is death, the Life Insurance Corporation

would clear up the debt so far as the banks are concerned.

Recently, we have given a scheme to one of the banks which covers all people who have personal loans up to Rs. 5,000. It is a group term insurance scheme. In the event of the death of the borrower, the Life Insurance Corporation makes good the amount to the bank. Similarly, we would like to see whether the long-term borrowings of the farmers could be covered by an insurance scheme of this type.

Secondly, we are also working on a scheme of introducing a policy which allows for non-payment of one or two premia. The idea that has been suggested is to work out to see that it is made as simple as possible and whether it is possible to issue it on the spot. We are trying to see that all the red-tapism in getting the examination etc., is reduced.

So far as the extension of the own your own housing scheme to the villages is concerned, we have taken a decision to extend it to 540 places, from the present 160. We want to extend it to a large number of areas, but for the smaller areas it may not be possible for us to do it directly. I have now suggested that the banks should also link themselves up with us.

CHAUDHURI RANDHIR SINGH: Are all these 540 places towns? Because a village with 10,000 persons is now called a town. You call it rural business?

SHRI PAI: I said that they have now not gone to places even with a population of 10,000. The difficulty with the own your own housing scheme or the mortgage scheme is, the Life Insurance Corporation says that they are not able to supervise the running of these loans because they do not have their offices there.

CHAUDHURI RANDHIR SINGH: You have been saying that once you

give a loan to them, you have not been able to get it back. But since you have now taken over, there should be a change in the pattern.

SHRI PAI: I am not one of those who believe that the rural people are not creditworthy or the farmers are not creditworthy. When I was in-charge of the Syndicate Bank, it was the first bank to go into rural business. So, that would not be coming into this: it is only our administrative problems. I am suggesting to the banking system that if the banks are prepared to give a loan of Rs. 5,000 or Rs. 10,000 for housing—they have a separate housing loan scheme—a refinance scheme would be provided by the Life Insurance Corporation.

SHRI D. N. PATODIA: For giving advance to the banks, what premium would you charge?

SHRI PAI: We would be able to give it at six and a half per cent.

SHRI M. ANANDAM: The Life Insurance Corporation's business is to be extended to the entire country, and so even with control at the Centre, it may not be possible to open branches everywhere. Don't you think that the discretion given to the offices may be misused and that there is need for some control by an authority like the Comptroller and Auditor-General?

The second thing is, you said that in the case of the Life Insurance Corporation which is run on business lines, there should not be any rigidity, and the CAG's audit imposes rigidity. My feeling is, where the accounts are audited by the CAG, there is a super auditing over and above that which is done by the statutory audit. If you get a super-audit on the Life Insurance Corporation, would it be objectionable?

The third thing is, there are three or four aspects of life insurance business. One is the insurance on the life of the people, the revenue aspect. The second is, the disposal or the settle-

ment of claims. The third is, the investment of the fund of the Life Insurance Corporation. Fourth is, expense ratio. So far as the first aspect of getting business is concerned, I do not think the CAG's audit should impose rigidity in this business. As you have observed, your target was Rs. 2,000 crores annually, but that you have achieved Rs. 1,000 crore target of 1963 only in 1970. It is not because of the proposed CAG's audit or any other type of audit; it is not that there is a shortfall in the estimate. It is because of various other reasons, probably peculiar to your business, and the way in which Government is conducting the business, that you have not reached the target of Rs. 2,000 crores. I do not think the CAG's audit is going to impose further restrictions, because for getting the business, the CAG is not going to impose any restriction or place any impediment. But in regard to investment policy, I think there is necessity for somebody to control investments in addition to what exactly the Board of Management etc. does. It is necessary for some outside agency once in a while to audit and I feel that the CAG's control may be necessary. It will, I think, only help you to improve and develop your business and the control that you cannot normally have over the entire administration, the CAG would be able to do it for you. What do you say about that.

SHRI PAI: I do not know. There are institutions owned by Government who are not subject to the control of the Auditor-General and there are institutions which are subject to the control of the Auditor-General. I suppose if you can see whether the control of the Auditor-General has made those institutions more efficient than those not controlled by him, then it may be worthwhile seeing it. So far as my organisation is concerned, though it is not controlled by the Auditor-General, as yet it has a rigidity of a Government institution and though it is expected to work on

business principles, it has never functioned in a businesslike way. After all, if it is businesslike, it has to be on the side of the people. On the other hand, it is found it has become more bureaucratic and more stiff in its attitude. So I was feeling that when without this control this supposed rigidity is there, with some kind of extension of Auditor-General, it might become worse. But if experience of other institution which are subject to the control of the Auditor-General already—I suppose there are only two or three institutions outside its purview—is encouraging and it is found that it has not come in the way of efficiency, I do not know why it should be treated differently.

SHRI SUNDAR MANI PATEL: I wanted to know the annual interest payable to the policy-holders and the total annual recurring expenditure of Life Insurance Corporation apart from claims.

SHRI PAI: It is subject to valuation every two years. Out of it 5 per cent goes to the Government and 95 per cent to the policy-holders.

MR. CHAIRMAN: What I was suggesting was that when we have generally felt that CAG should come into the picture with regard to these institutions, it was not as a matter of detail but because we are now entering on bigger policies and since there are more and more institutions that are likely to be socialised and as a result of this would it not be helpful if the CAG, not like the ordinary rules that they have in their Department but as a business institution, may have also a branch of their own where they may have their own norms of business institutions and they review the functions of such organisations and their performance. If that happens, will it not be a sort of a thing which will inspire more confidence in the public.

SHRI PAI: That is an excellent idea, Mr. Chairman. I think if the very concept of audit by the Comptroller and Auditor-General is changed so far as business institutions are

concerned, nobody can object to anybody looking into your accounts. In public interest I would rather prefer also when we now take more and more of these institutions under social or governmental control. The performance should not be judged only in rupees and paises, but the social objectives must be clearly defined and their performance should be judged in terms of what they have been able to achieve also.

MR. CHAIRMAN: You mean benefit costs!

SHRI PAI: If the Life Insurance Corporation has been nationalised, the objective was to take social security to as many homes as possible. Have we succeeded in that? What are the impediments coming in the way? The business, at the moment, comes from a small section of the society. It may not require insurance at all. Those who require it most, they are not covered at all. So this kind of evaluation of the performance of the institutions, may be banking system or of the insurance, might be made continuously.

MR. CHAIRMAN: Thank you, Shri Pai.

(The witness then withdrew)

(The Committee then adjourned till 15.00 hours)

(The Committee re-asssembled after lunch at 15.00 hours)

III. Dr. Vikram A. Sarabhai, Chairman, Atomic Energy Commission, Bombay.

(The witness was called in and he took his seat)

MR. CHAIRMAN: Mr. Sarabhai, we welcome you to this meeting. As you will find, your attention has also been drawn that the evidence that you would give, would be treated as public and is liable to be made public unless you specifically desire that all or any part of evidence tendered by

you is to be treated as confidential. But in any case, this is liable to be made available to the Members of Parliament.

You have submitted a Memorandum and also this 'Control and Management of Public Sector Undertakings.' Apart from this, if you like to offer some remarks regarding the points that we have raised in our letter to you, we welcome it.

DR. VIKRAM A. SARABHAI: Sir, I consider it a privilege to appear before you and your colleagues. I believe that the whole function of the C.&A.G. in the set-up of the governmental organization is a very crucial one and I personally regard that unless we are able to keep a proper balance between the insurance that we desire through audit and the likely repercussions of that very act on the primary thing that we want to promote, we are likely to adopt self-defeating measures. My own feeling is that in this particular document which we received, there is a proposal to enlarge the scope in five items, if I am mistaken.

The main thing which I would like to say is this. In my own experience, there is a great disparity between what can happen in theory and what does happen in practice. No one can really object to audit in theory. I think, when Government decided that there was need to have several different organizational forms in which public sector enterprises could be launched, there was some reason behind these. You have the statutory Corporation, you have the public sector Corporation, you have government undertakings. It would have been very simple, when Government is the sole share holder, sole owner of any enterprise, to have had just one single type of structure. But there have been good reasons why a distinction has been made. It is no use before a distinguished group like this to elaborate; it is well known things as to why it is necessary to have a public sector Corporation in the frame-

work of the Company Law. It seems to me that if any attempt is made to extend the C. & Ar. G.'s function to these other bodies, in principle they may look all right, but in fact what you would achieve is an extension of all the administrative practices and culture, if I may say so, of Government into these organizations in a rather insidious manner. Nobody will say that this is so and everybody will agree that it is possible that this need not happen. People round this table have a whole lot of experience and I think, they will ask themselves this question—in fact will this happen or not? They will agree that in the present milieu in which we operate, it is more than likely.

It is more than likely that the average worker or Manager or Executive would be completely cowed down by the extension of this, so that my own reaction to a wide-spread extension of these functions to these other bodies is a negative one and I have expressed it here. In my own Article, where I have spelt it out, I have elaborated it in greater detail. I do not know, how much time you want me to spend; I do not want to bore the Committee.

MR. CHAIRMAN: You have your own time.

DR. SARABAH: I personally feel, Sir, that this aspect that different types of organizations which are related to different objectives require different working cultures is not generally very well recognized. I have in this Article tried to make out that we do not find it difficult to recognise that the operating culture of an army regiment is different from the operating culture of a Government servant for the administration of a district or from the operating culture of a University. Each operating culture has, over a period of time, grown through effort to maximise the possibility of

achievement and the different primary tasks—for the army regiment, the task of providing a basis in which an individual would be willing to lay down his life in obeying a command; in the district administration the primary task of conveying impartiality of administration without fear or favour; in the university, the primary task of providing an environment in which people can grow.

Now I suggest that the operating culture of a public sector enterprise is to promote the primary task, which we defined earlier, namely to maximise profit. I go on to say that it seems to me that the fact that there are many enterprises which are all State-owned does not necessarily mean that we can apply the same administrative practices to all of them. When the Government creates an organization like a Steel mill, it is to promote the production of steel at an economic rate and I think, one has to ascertain as to what is the best culture for the particular activity consistent with the overall norms and constraints which we have chosen for ourselves in this country. So, I do feel that in regard to first point about the extension, I would hope that one would recognize that there are different types of audit. I am not for elimination of the Auditor General's functions at all, but I particularly bring out the aspect of propriety audit. It is not appropriate to the performance of tasks where you want risk taking the exercise of initiative and the exercise of judgment. The exercise of all these must be regarded as against public interest, but indeed public interest can only be served if the people who are put in-charge are willing to exercise their judgment. The second point which you have here is that of banks in which Government hold 25 per cent or more of shares or where investment of the Government exceeds Rs. 1 crore. Here again it seems to me that a shareholder has certain well defined rights provided by the company law. These rights relate to the election of

directors, adoption of accounts, etc. I believe that this country can go ahead only if we as a nation learn how to raise them in an effective way because it is in this that the key to success lies. I am therefore keen to see that in the exercise of the responsibility of ownership, Government do not lose sight of the great necessity of separating the function of ownership from management. It is well known that one of the big problems of family business is that the problems of the family get translated into problems of the enterprise; quarrels between brothers can be fought in the company as quarrels between the man operating, production department and the sales department. It seems to me that in the operation of the public sector one has to realise that Government must necessarily have wide objectives, objectives which encompass all the facts of the nation. In the democratic set up that we have, the political parties, the strife and struggles in society are bound to be reflected Parliament and at the level of the Ministers. It is perhaps a healthy sign of democracy. If management of a public sector enterprise is not distinguished from ownership, all the strife that we see in our wider political map will get translated as struggles which will be fought within those companies. I personally feel that if Government wants to make the public sector succeed, it must exercise self-discipline. Making use of 25 per cent holding as a means to bring in a new type of audit, a new type of culture in the public sector enterprise, I personally feel, would do damage. In most of the companies where there is minority Government shareholding it has helped the companies to grow. I know of cases in Kerala, and other places also, where the industrial structure is not well developed, Government may come forward to help the entrepreneur by saying: we shall initially take 25 or 30 per cent of the shares. It conveys a measure of confidence, that the State is behind that person. If we now bring about what is contemplated, we shall have the worst of both

sides. I should like to caution against this tendency to merge these two things, as if they were not two distinct things.

The third point is about contracts. I feel that we should make a distinction between different types of contracts. There are contracts which are cost plus contracts; it is necessary in such cases to have an audit of such contracts to see that they are not misused. But quite often, because of the state of technology and the level of precision of the things that we require, it is truly against the public interest to have an open contract because then you land yourself in a situation from which you do not know how to extricate yourself. There are cases where it is necessary to identify beforehand the parties who have got the basic competence to do a certain job and then issue limited tenders. Take the question of consultants. There are certain fees. Take again architects. There are certain well-known norms. It is not possible in such cases to call for tenders; there would be no meaning, just as one does not go to a doctor to consult about the condition of one's heart by inviting tenders. When you go in for consultancy with regard to certain types of things, there are one or two parties who can do it and you must go through negotiations. Because you go through negotiations, if it is a fixed price contract, it would seem rather inappropriate to subject that party to CAG audit. If it is cost plus basis, it is a different matter. So that I should think that the criterion for attracting CAG audit is not whether it is a negotiated contract or a contract awarded without calling tenders or not but whether it is cost plus or fixed price. If it is a fixed price contract and the man has done something wrong, you can drag him before the court. Your own side of that contract is subject to the control of the CAG. In England the British Atomic Energy Commission had entered into certain contracts with some machinery manufacturers who made huge profits

and a scandal arose and then they had to refund some money in order to keep their good name. One must recognise that after your own bargaining power is very small. If the only consultant competent to do a particular job says: I am not accepting this, what is the choice? Either I do without that company or go to somebody who does not know it well which is doing more harm to the public interest. I do not think it is ethically right also. In such cases there is no choice. There are of course norms by which one can judge if the fees are appropriate or not. I did feel about the Bill one thing. For instance, take the CSIR or the Agricultural Research Institute. There are umpteen research organisations which have been established under autonomous councils and they have been given the structure, because under the Science Model Constitution which was adopted by the Cabinet on the advice of the Scientific Advisory Committee when Dr. Bhabha was its Chairman, it was recognised that there is much merit in creating scientific research organisations within the umbrella of an autonomous unit but with appropriate safeguards. If these are going to be funded 100 per cent from the Central exchequer or Government revenues and if because of this you attract the compulsory audit by the CAG, I think again we would be doing the wrong thing. So, I have suggested in one paragraph that you should have a provision that the President, in consultation with the CAG, gets it audited in a different way. I would urge that we should not make it too rigid so that such an option is not possible either to the President or to the CAG to do it. I am not suggesting that that particular provision should be dispensed with. But I do find that you should arm yourselves with some set of words as appear in the next column. I have made that point in my note, as a proviso in clause 20.

Before I close, I should say that Shri Maithreyan, who is constituting your inquiry was our Financial Adviser in the Atomic Energy Commission for

four years, and he fully knows all the problems of this aspect of auditing. We have for the first time to do certain things which we have never done before. There is no way in which one can fix the price.

SHRI C. D. PANDE: We appreciate your difficulties. We are Members of Parliament often come across complaints that in various public sector concerns, things are purchased or ordered from abroad which are never used and they incur very huge costs. People do not know what is the use for them. In many scientific laboratories fine instruments have been ordered and not used. Similar things happen elsewhere. The thing may have cost Rs. 5 lakhs, but some of the subordinate or fairly senior officers, without knowledge, order a thing and instead of Rs. 5 lakhs, pay Rs. 8 lakhs. The questions, how to remove the apprehension from the public mind that public money is not being used properly. It is not enough to say that these are autonomous bodies which have to develop things and are intended for commercial development. You may have a free hand and initiative and scope for innovation, but that does not mean that one can go on spending without any corresponding benefit or results. Of course, you may say that one has to go on till results are achieved. But if maximum results are not achieved even by spending the maximum amount, then Parliament is concerned with it. What is the instrument by which one can judge your actions?

DR. SARABHAI: I am very glad that this question has been put. It is something like a million dollar question if I may say so. I think before Parliament can ask a question of this type, it has to suggest a clear-cut objective which somebody has to achieve. If you as the masters are awake then everybody else will be awake. If you say I want to get this done by such and such a time, and then say, please tell me how it could be done, we first have a system of

manpower planning and of putting people on top who can discharge this accountability without creating an alibi. Today, every single executive has an alibi in Government. The whole aspect of Committees is on which perpetuate this but we often confuse with democratic procedure. We spread responsibility so widely that nobody at any stage can be held for accountability. It is just about close to murder.

My feeling is, accountability for performance of tasks should presuppose that somebody has prescribed that task; that you have chosen people who can be judged in terms of the performance of the task. It seems to me that there is really no alternative but to put people in charge who recognise the task and believe that they have your confidence in carrying through this task. The only appropriate supervision that can be done on their performance is by the controlling group itself that is working with them. If that group is not made up of people who are casually collected together into a band of 20 or 30, it would be good. But I find in the Indian Agricultural Research Council, which is a top governing body, a group of something like 25 to 30 people. Such a top body can only perform a role of getting the status symbol with so many people being associated with it; but it cannot have a clear control function. If you really want a system to be properly controlled, you want a compact group which should devote itself to the task and that compact group has a total command in which it is not allowed the luxury of getting out of that hard situation by just pointing out to half a dozen organisations which may have failed. It is for people to work together. This is the type of situation that we have.

While I fully share the view that there is a far too widespread passing of the buck at every level, it is not corrected by just putting the CAG in, because, while the CAG can often deter a wrong thing from happening, he cannot make the right thing happen.

What I think we have to do is to get people who can make the right thing happen, and if there are people who cannot do that we should get them out of our way.

SHRI D. N. PATODIA: We are interested in your observations, and here, I will just quote a particular line from your own memorandum:

"Propriety audit works with hindsight and, in its very nature, curbs the exercise of judgement, initiative and innovation by executives."

You have also explained in your memorandum in detail I think the opinion of the Committee can be further strengthened if you can throw some light by giving some possible illustrations by which the existing practice can be shown as one which curbs initiative. You have experience, and I think none of us have that much experience as you have in this field. A few illustrations from you would be a good guideline as to how you feel that by extending the provisions of audit by the CAG over the organisations like yours they are likely to act as a positive curb on initiative and so on.

DR. SARABHAI: I would like this to be *in camera*, because then I could speak a little more freely.

MR. CHAIRMAN: Yes; it will be off the record.

SHRI D. N. PATODIA: You had just now referred to something that happened in Sweden (Dr. Sarabhai made certain remarks *in camera* which were not to be recorded) and possibly, as we learn, similar things must be happening elsewhere also. Could you possibly illustrate what is the likely pattern of working and audit and investigation with regard to the accounts of similar organisations in other countries *e.g.* Sweden, USA, etc. Or, in other words, could you possibly sug-

gest some *via media* or some better way by which we can improve upon the present system of audit without in any way infringing the freedom that is enjoyed by you?

DR. SARABHAI: I think the acid test of this approach is whether a man can make a thing work; whether from a particular failure I have learnt something and made the thing work at the second shot. Then you can very well compare the cost of my project with the cost in other countries. The best control is by the judgment of our performance with similar performance elsewhere. Every failure must be followed by a positive action which leads to success.

SHRI D. N. PATODIA: My question was can you tell us something about the methods employed in other countries to ensure this accountability?

DR. SARABHAI: As I said you define what you want. Suppose you decide that we want to provide cheap electricity. Atomic energy in other countries is selling at 3 paise per unit. Here most of energy cost is 7 to 8 paise. You as Parliamentarians can very well and very legitimately comment to your scientists and technologists and your industries that as far as we are concerned, this is not a good enough performance. After all you cannot have development of economy when even a primary thing like electricity should cost as much as three times as compared to other countries. As far as we are concerned, we do not stand for this. You have to ask them to come out with a Plan by which in 2 or 3 years or even perhaps five or seven years we produce it as cheaply as any where else in the world. And it is not difficult. After all, we have a lot of human resources available at a comparative cost. We may be poor in many things but we are the richest country in human resources and we have a tradition of intellectual activity. There is no reason why we should settle for anything less. In my reply I will say that if you

are asking me to bring down the cost of power from 8 paise to 3 paise, I shall probably require the following things for my development plans and this is my cost and then you can see whether that expenditure is justified and should be provided for. That is amchoise which is a political choice. You have to decide whether you should make provision for it. Then I think you give us the definite targets. It is accomplishment of these targets by which you should judge our performance.

SHRI D. N. PATODIA: One more question. What is the system of audit which is followed in other countries?

DR. SARABHAI: This differs in different organizations. For example, research is not subject to audit. But once the man says that he has developed something and he would put up a factory, in that case you would apply audit. When you have developed and come to something definite, then you can say that this can be done in this manner and it is subject to audit. But when you are on the path of development, no audit can help you, except in relation to success or otherwise reaching a goal.

SHRI D. N. PATODIA: Your note is silent with regard to one point raised in the Bill and that is with regard to the C. & A.G.'s audit of those institutions who receive financial assistance in the form of aid and grants.

DR. SARABHAI: I am unable to generalise this in all manners of things. But if you are talking of the institutions where developmental tasks are involved then it seems to me that C. & A.G.'s audit in the present form, in its entirety, should not be applied. If at all, it should be financial part of audit and not propriety audit. I feel, there is already a provision that President in consultation with C. & A.G. can order inspection of any institution. But wherever you have got a body which is capable of exercising self-control, this is the best form of control in the world. I

am not suggesting that the C.&A.G. should be divested of the authority of special audit if any abuse takes place. But I do feel that by and large one should try to secure a situation in which unless there are reasons that this proper thing will not be done, one should err on the side of trying to let them develop a system of self-control, where they would exercise their authority.

SHRI D. N. PATODIA: Do you think that whatever provision exists today in the Act, to appoint C.&A.G., that is adequate enough and does not need any major change

DR. SARABHAI: I am personally for an explicit distinction between C. & A.G.'s function for propriety audit and financial audit. Propriety audit I really feel, should not be given.

SHRI D. N. PATODIA: Do not call it propriety audit, but efficiency audit.

MR. CHAIRMAN: You have rightly said that the nation wants a certain thing and you have been told that this thing is to be done. Now here we entirely agree with you that the present culture of the C.&A.G. may not be applicable to a situation like this. An autonomous body is deliberately created by the Government for certain task and certain objectives, but some evaluation will be there. Say, for example, we have a Committee of Public Undertakings. But we are no experts. Now actually whether things are going on properly or not, there must be some norms to be observed and somebody to see that. Here we are a democratic body and the democratic body has to see whether these public sector institutions who have been given autonomy deliberately are doing their tasks. They have a certain task to perform; it cannot be done by a Government department. You will have your own cell, which is internal audit, who will look after this, but there must be another cell also which will be independent of your organization, but who will assure us, the Members of Parliament, who will assure the

public that something good is going on. An independent audit authority, may be C.&A.G. or a part of C. & A.G. may be able to guarantee the Parliament and through the Parliament to the public that whatever has been given to them is being done properly. In every institution, of course, the norms would be different. Now in atomic energy, if we are going to interfere everywhere, it would be wrong. Different types of autonomous bodies will have to perform different types of tasks and for that different norms will have to be applied. Don't you think that in a democracy an institution like that is necessary; whether it would be part of the C. & A.G. or not, we shall come to that later.

DR. SARABHAI: Sir, I think, this point is very important and it interests me immensely because I would like to bring out two aspects of the situation. One is the time span of control and the other is the level of control. It seems to me when Parliament, which I think appropriately should concern itself with this, does concern itself with the Public sector, it should not be concerned whether a ten-rupee thing or a one-thousand rupee thing was done properly or not, but whether—may be Hindustan Steel or Atomic Energy, which were set up for specific purposes—are they doing the job that they are supposed to be doing. This review should not be more often than once a year because if it is more than once a year, it tends to be infructuous in a number of ways and it cannot operate. On the other hand, it cannot be done at a level below the level at which reviews are made at the annual basis, but then it must be very thorough review. It would be very important. I have suggested in my study that the concept of public sector which has worked very well in Italy and France is a very good model which we might take as a device for achieving this state of situation. There can be those Members of Parliament, who are competent because of background

experience, plus those with financial and technical managerial experience plus some people from Government. They will annually review the various corporations which work under them. They will be particularly trained over a period of years to look at them. I think this would work—a public holding company with its own board of directors. There is such an arrangement in Italy. It has got about 35 per cent of the Italian industry in the public sector. In France also, automobile companies, aviation and oil, gas companies are all within state consortia, holding companies which are also public sector companies where people are appointed not on an annual basis but because of the particular competence they bring. I feel that an annual report by such a group of persons, accountable not only for control but for seeing that the right thing is done, would serve the purpose. I fight shy of situations in which there are some persons who have no responsibility for getting anything done.

SHRI C. D. PANDE: You are referring to Members of Parliament.

DR. SARABHAI: No, no. If we take audit out of its proportion it would be just this. I want to combine the total responsibility. I have spelt this out in my paper. This is the thing that has worked very well in the control and management of public sector undertakings.

SHRI S. S. KOTHARI: We can understand your attitude as a scientist. But there are same types of cases where propriety aspect has to be looked into. For instance, in Hindustan Steel crores are invested and losses also run into crores. There are various other undertakings where there are heavy losses. All those losses cannot be ascribed to factors beyond managerial control. There are enormous wastages also. The statutory auditor is not in a position to question the propriety of

the transactions; he looks to arithmetical accuracy and voucher audit. To say that the CAG should not look into the propriety aspect, whether it is within the policies and directives laid down by the Central Government would in my opinion going a little too far.

DR. SARABHAI: I shall give you an example. In the whole machinery making industry, steel and nickel have a very important part. During the past year there was a long strike in the international nickel company in Canada which supplies a large proportion of world's nickel resources. In consequence over a period of four or five months the price of nickel shot up to something like eight times. There were various projects under implementation here for which people have to buy equipment and had to place orders for manufacture. For instance, the Madras atomic power station is a Rs. 65 crores project and one day's delay in starting it would cost, in interest alone, a huge amount. Therefore, it is my duty to expedite it. I was not in a position to control what was happening in Canada. I had to take a view of the market and decide whether to buy nickel at six times the price and to close the deal or not. Prices came down later on. It so happened that the strike was settled and the prices dropped again back to the normal rates in two or three months. Now in hind sight one would say that the man who exercised his judgement and took it at six times the price committed a gross error of judgement. Who is to defend him? This will of course go into the audit para. At this rate, he will play safe next time. Nobody would question him if the project is delayed even for two years. This is what we must ask. Any procedure that we adopt should not put an inhibition on a person who takes initiative to get a thing done. I have got another example. Take the Electronic Corporation. I make a new product and I want to promote it though advertisement, publicity and a proper sales organisation. One

of the defects in the public sector projects is the absence of strong marketing function; that wing is very weak. We are all finance conscious; we are not business conscious and do not know how to generate more money out of it. In marketing, you may have to embark on a publicity drive which may cost Rs. 5 lakhs this year in order to promote the sales of a particular product. In electronics, for instance, the public sector are operating in competition with the private sector firms such as Philips, etc. There are X, Y and Z companies which market exactly the same products. Unless you follow aggressive marketing policies, which means spending money to do things and to get on with the job, you cannot really hold your head above water. In such circumstances, a person who has to do these things always tries to play safe because he cannot guarantee—even the marketing manager of the Lever Brothers cannot guarantee—that if you spend Rs. 50 lakhs tomorrow on a new advertisement campaign it would necessarily work. Over a number of products it does work. Propriety audit would apply to such business decisions, and if out of hundreds of such decisions which a person is constantly making, one were to be out of line and did not quite work out as expected, then he is hauled up. The promotion procedures and other things are such and even a statement in the Public Accounts Committee, which is not necessarily derogatory, the very fact that this fellow has come up for cognisance at that level is regarded as some sort of a slur on him. In my opinion, the CAG and the PAC are quite reasonable and if the department were to explain the exact position they would not carry it further; the matter may be dropped if they are convinced that it is a bona fide decision.

This is not how the thing operates. As far as the manager is concerned,

he is petrified. You can take an average Government servant; how does he regard any adverse comment or comment at such a high level as a Parliamentary Committee? Does he regard it in terms of his future? This is where I was pointing out that apart from what you say which is perfectly right, we must see how it operates. I cannot help feeling, that if we have to take things in the balance, we require to adopt a procedure whereby we exercise self-discipline in the amount of breathing down on people's back, that we do. We have to see whether the man performs properly, the supervisor does not abdicate but restrains himself. If there is need, the manager needs to be pulled up.

SHRI S. S. KOTHARI: About the nickel affair, I think if the Auditor-General or his staff comments on that item, it will be found that it is the fault of their out-dated procedure. Now, from the evidence of the previous witness who had come here, we formed the impression that the Auditor-General perhaps takes things a little too seriously and he does not take a practical view, where somebody had to buy nickel because of a temporarily high price in the world market. There was the necessity to purchase it immediately. It is for the Auditor-General to take a realistic view. I think as a Committee we would call the Auditor-General and also discuss it with him. He has to take a practical view. Because of such exceptional circumstances, to say that no propriety audit should be necessary in the public sector undertaking is, I think, going to the extreme. Perhaps you are judging from the special point of view in the sense that Dr. Sarabhai or the departmental scientists may be excellent people, absolutely honest, good and sincere, but can you vouchsafe that in the case of 80 per cent of your other officers? The PAC and the PUC are replete with examples where fraudulent deals had taken place. Not only deliberately, but

mala fide actions had taken place. After all, public money has to be safeguarded. I appreciate your point also, and efficiency has to be looked into, and the officer on the spot should be able to take action. He must also be able to manoeuvre out of the difficulties. But if I take one point of view and you take the other extreme view, we have to arrive at some sort of balance and a practicable working solution. What we are arriving at on the basis of the previous evidence, and what I was feeling is that probably the Auditor-General may have power to enquire into certain working of the institutions, not on a regular or routine basis, but once in three or four years, just taking a test check in a particular financial institution, and if he feels that everything is all right, he may not touch it for another three or four years. But if a situation warrants a detailed checking, he may look into all these aspects. What is the harm in giving him all the power and authority to be exercised with discretion? It is possible that in certain cases he may not find it necessary at all. But to go to the other extreme and hold the propriety audit probably is not at all necessary—perhaps some of us may find it difficult to agree with that view.

DR. SARABHAI: I have never had difficulty with the Auditor-General. It is not at that level that the problem arises. I was not the man who made the decision in regard to that nickel purchase and it was perhaps at the level of an engineer who was perhaps three or four steps from me in the reporting hierarchy, and he deals with a reasonably junior official in the C.A.G.'s office. It is not the CAG himself. That man's bread and butter lies in preparing a proper audit para! You must look at the motivation. He goes after him hammer and tongs in this work. Of course, there are exceptions where people are not deterred by this type of environment in which some junior fellow finds himself and whose job it is to prepare the audit para and to find out chunks in your armoury.

My suggestion is this. I have never suggested that it is at all appropriate for Parliament or the Auditor-General to abdicate its responsibility in regard to all these matters. What I am suggesting is that this responsibility must initially be exercised at a level which is appropriate to such parliamentary control. It is not at the junior level. It must be at the level of the Board of Directors, and only if there is evidence that something is wrong, you start making a special enquiry. But in the normal course, the normal commercial audit existing in the system should be sufficient, with the Auditor-General and Parliamentary control coming at the top level. It is only when there is evidence that something is not working all right that you must go deep into it.

SHRI S. S. KOTHARI: The Board of Directors would then like to indict the staff.

DR. SARABHAI: I have been looking at the motivation. To me, if the Auditor-General points out anything which I think is important for my work, I welcome it. After all, we are here for public service.

SHRI S. S. KOTHARI: The loyalty to the organisation is important. My fear is that the Board of Directors would suppress most of the matters if the Auditor-General would make so much of hubbub.

DR. SARABHAI: The Board of Directors may behave as its own masters behave. I feel that if Parliament would exercise its discretion and look at this matter in the right perspective, it will be good. I have a feeling that you will also need a set of responsible Board of Directors. The errors of the public sector must be viewed in terms of the totality seen properly. It cannot be pulled down by one instance. That is what I object to myself to judge a person or an organisation or

an unit rather than the totality.

SHRI S. S. KOTHARI: There have been cases where the senior Chairman of certain projects have been involved in collaboration with agreements which are now being looked into by the CBI. I do not name the persons, but it forms the subject-matter of a report of the Public Undertakings Committee, and that matter is being looked into by the CBI. Things can occur like that.

DR. SARABHAI: Dishonest men know how to get round the CAG. It is the honest man who is bound hand and foot and may lose both ways.

MR. CHAIRMAN: I think that you have two or three points. Even if there is going to be evaluation of the objective that was kept before a particular institution, then it should be done at a certain level.

DR. SARABHAI: Which is commensurate with Parliamentary control.

MR. CHAIRMAN: Just as in the State Bank where they have got an Inspection Wing, where there are Class I officers—20 or 30 of them—who do this inspection. Similarly, if a certain level is maintained—and this is not a regular thing but on certain occasions only—then you will have no objection. That is point No. 1. Point No. 2. That for this type of evaluation a separate set of norms will have to be decided upon for different institutions, e.g., Life Insurance Corporation, the Atomic Energy Commission, the Air India, etc. Now we have an accountability to the public even as the autonomous bodies have to account for their activities to the Government. For that we might devise a scheme. The other one is that I agree with you that the Manager or the person in-charge has to make so many decisions—policy decisions, business decisions, out of which two go wrong, then it

it is not his every individual decision that we will judge, but the totality of the thing. The Auditor-General will have to consider whether the mistake is an error of judgement. If he has been successfully making 98 decisions correctly and if he erred in one or two, then he will not make a fuss about it, unless there is something malafide. But this type of thing is necessary. That is why this Committee is concerned with it. We as Members of Parliament are only trying to apply our commonsense to things. We know the pulse of the public; we have been doing that job all our life. Therefore, we know where the public is interested. We talk of corruption everyday. The public must be assured that there is no corruption; that we are not corruption. From that point of view if it is necessary to empower the Auditor-General to perform that function occasionally whenever necessary in the case of these institutions, we are trying to find out. If we accept these norms, then some provisions have to be made. We would like to satisfy the public and from that point we are approaching the question. If you can think it out on these lines and give some positive suggestions, then it will be very helpful.

CHAUDHURI RANDHIR SINGH: Let me supplement the Chairman. There is a couplet in Persian which means 'whosoever has a correct account, why should he bother about anything.' The public undertakings are losing their reputation. So far as your organisation is concerned, we do not have anything to say. We will say try and try again; go on with your work. Auditor-General is also a part of the Government. You take him a sort of a sanctified institution. You should not be immune from it. I agree with Mr. Kothari that you are engaged in a thing which the nation requires you to do or as Nelson said, 'the country expects you to do'. But the thing here is where a hundred rupees

should be spent over a thing, a thousand rupees are being spent. Even the private sector people say what are your nationalised things. The very bone that we have before us is put to doubt. Do not think that we are going to interfere in your autonomy. I do appreciate that you will be demoralised with people coming every second month or third month and interfering. Your integrity and purposiveness is proved by your statement. But you are making a deposition here not only in regard to your Atomic Energy Commission. We want you to say about others also, e.g. the Air India, the Steel industry, the HMT, etc. Can you suggest what sort of apparatus we should have in respect of those institutions as well as your institution for this? So far as your institution is concerned we agree that it should be treated differently; it has to do something with the defence of the nation.

(The witness then withdrew)

IV Air-India, Bombay.

Spokesmen:

(i) Shri M. S. Chaturvedi (Retd. Air Marshal), General Manager.

(ii) Shri K. K. Unni, Assistant General Manager.

(iii) Shri C. V. R. Rao, Financial Controller.

(The witnesses were called in and they took their seats).

MR. CHAIRMAN: We have to invite your attention to direction 58 of the Directions by the Speaker. Whatever statement you make here will be made available to Parliament and it will not be treated as confidential.

SHRI M. S. CHATURVEDI: I have signed that note.

MR. CHAIRMAN: You must have received our letter where we say that all statutory corporations and financial institutions as well as the Re-

serve Bank should come within the purview of audit. Your organisation is a public sector organisation and so it will come within the scope of the C.A.G.'s audit. What you have to say about it?

SHRI CHATURVEDI: We are fully covered by the Government audit. CAG is doing it right now.

MR. CHAIRMAN: Do you find any difficulty because you are subjected to audit by the CAG?

SHRI CHATURVEDI: We have no difficulties. We find that they are helpful and if we explain to them the position in cases where we have done things which are not technically within the purview of the rules and regulations, by and large they accept our explanation.

MR. CHAIRMAN: Can you give your views about the other items in our letter?

SHRI CHATURVEDI: Item 3 of the letter refers to accounts of contractors with whom contracts exceeding Rs. 1 crore are entered into by the Government, which, I suppose, excludes corporations like us, because we are not Government in the strict sense of the term. But if it does not exclude us, I have certain definite views. As far as we are concerned, it is not a practical proposition because most of our contracts are with foreign firms and secondly they are proprietary. If we want to buy a Boeing, we want to buy a Boeing and nothing else. Therefore, the question of going into their accounts etc. does not rise.

MR. CHAIRMAN: We are talking about the other contracts such as building contracts, etc.

SHRI CHATURVEDI: My general reaction is that perhaps it will not be correct to have this clause even if it is a negotiated contract. The two parties concerned have come to a definite agreement. For instance, the I.A.C. charters our aircraft under some

agreement with us. Previously, there was a Boeing service between Bombay and Calcutta and we agreed that the cost will be Rs. 20 or 30 or 40 per mile; that contract will run into more than a crore of rupees; it is a negotiated contract. Having agreed among ourselves, where is the scope for any audit by anybody else?

MR. CHAIRMAN: Negotiated contract is included because of certain reasons. We have to consider the climate in the country. It is sometimes suspected that there is an underhand dealing. We may not be able to punish that man but the person on our side who has negotiated it and done such things could be booked.

SHRI CHATURVEDI: Rs. 1 crores is a substantial sum of money and if a contract of such magnitude has to be negotiated, it will be done at the highest level—chief executive of a corporation or department. We must believe in the integrity of such persons; otherwise he should not be there.

MR. CHAIRMAN: It is not only for corporations; it is also for the Government contractors.

SHRI CHATURVEDI: What is the object of going into the contractor's books? Is it that he has to use ten tons of cement and five tonnes of steel to construct a building and the auditor will say that he has used only five tonnes of cement and 2.5 tonnes of steel?

MR. CHAIRMAN: Negotiations will be on some basis. So much cost will be involved and so much profit will be there. If we find that so much actual cost was not incurred, the presumption is that there was an error of judgment or something underhand was done.

SHRI CHATURVEDI: It is possible.

SHRI D. N. PATODIA: In that case, it becomes cost plus; not negotiated.

MR. CHAIRMAN: In the negotiations these things come in.

SHRI CHATURVEDI: As the hon. Member Shri Patodia has pointed out, if it is a question of cost plus so much per cent, there is perfect justification to go into the books and find out what is the cost. And on top of that, you give four or 10 per cent, whatever you like, as in Defence. When I was connected with HAL, all the prices used to be cost plus. So, the audit used to go into the HAL costs and find out and make the payment. Where it is negotiated, if a man comes to quote at Rs. 1 lakh or so, and finally it is decided at much less, it is negotiated. If the man has reduced it, then the overall thing is considered. In one item he may be running into a loss and in another item he may be running into a profit. He has weighed the pros and cons and says, "I will make some profit in this, and so I take it."

LEGISLATIVE COUNSEL: The Auditor-General in the U.K. had said that the genesis of this suggestion is that some plants were supplied and some unconscionable profits were made. After investigation it was found out that the company had refunded this money. That is why Parliament wants to make a provision like this.

SHRI D. N. PATODIA: In the case of the United Kingdom, that finding was not subject to the audit of the CAG. It was out of the audit report of the company itself and the company volunteered to give it. The company itself, in the process of audit, discovered, and it volunteered to refund it.

LEGISLATIVE COUNSEL: In the course of the audit it was found that the company had made unconscionable profit. It was an independent committee that was appointed. It was not a Parliamentary Committee. After the investigation it was found that unconscionable profit was made, and as a

result of the findings the company refunded the money.

SHRI D. N. PATODIA: I know that. They volunteered to refund it. Not that they were obliged to refund it.

LEGISLATIVE COUNSEL: They volunteered to refund the money.

SHRI CHATURVEDI: May I put a question? It is from the sublime to the ridiculous, if I may say so. Supposing as a result of the audit it is found that a firm has gone into a loss, will they give them more money? What is the object? The object is that they should not make undue profits. If that is so, they should not be put to undue loss also. But I don't think that is possible or practical in our system. Therefore, I see very little purpose of such a thing. This is my personal view.

SHRI DINKAR DESAI: Would you like to suggest any amendments in the present Act?

SHRI CHATURVEDI: No. As I said, we have had no difficulty and, therefore, we have no suggestions to make.

SHRI DINKAR DESAI: Does the Comptroller and Auditor-General conduct a proprietary audit or a routine audit?

SHRI CHATURVEDI: Both.

SHRI M. ANANDAM: Do they make no comments?

SHRI CHATURVEDI: They do make various comments, but then we explain to them that it is because of commercial reasons.

SHRI D. N. PATODIA: CAG audits your books over and above the audit done by the other auditors. Do you find any difficulty in that.

SHRI C. V. R. RAO: According to the Statute, we have statutory auditors. We do not call them auditors;

we call them examiners. They do not normally check the routine papers.

SHRI CHATURVEDI: The only thing which I would like to add to the question there about our finding any difficulty in this, I would say we have no such difficulties and as far as the Act part of it is concerned, according to our feeling, I do not think it needs any change. But, there is scope for procedural amendments, which we keep on taking up with the Auditor-General from time to time and there is scope where simplification of certain procedures could be adopted. It is merely the administrative procedure that could be further simplified.

MR. CHAIRMAN: Thank you.

(The witnesses then withdrew.)

LEGISLATIVE COUNSEL: About this contractors' position, there are two points which I would like to submit to the Members of the Committee for their kind consideration before a final decision is taken. If power is given to CAG to scrutinise the accounts of the Contractors, how far will be tantamount to a reasonable restriction on the right of the Contractor to carry on his business? That is point No. 1 which has to be considered. There is a provision like this in the USA. There, of course, the provision is slightly different. There the provision is that in the contract itself there should be a clause to the effect that the contractors' accounts will be liable to examination. But if instead of doing that, we straightaway make a provision that it will be subject to CAG's audit, I apprehend that it may amount to a restriction on the fundamental rights of the contractors. Another point is about making a provision for taking action when it is found that a contractor has made unconscionable profits. Supposing you find that a contractor has made unconscionable profit, how do you recover it since he has earned the money out of a valid contract? I feel instead

of making a straight provision as we are suggesting, if we make a provision something like the one prevalent in the USA, that will be better.

SHRI D. N. PATODIA: This is a very unreasonable position. If it is discovered that a contractor has charged more by 50 per cent, you want to go to the extent of recovering it back. But, suppose, it is discovered that a contractor has charged less by 50 per cent are you going to pay him back? You will definitely not, I am sure. Therefore, why should the contractor suffer on account of the mistakes of the officers of the Department. This is one way traffic that you are thinking about.

LEGISLATIVE COUNSEL: The whole basis of it is that supposing some rate has been agreed to, but it is found out later that some material facts were suppressed but for which such a rate would not have been agreed to. Then in those circumstances—what should be done? This is a difficult provision. We may consider whether it should be made at all?

SHRI D. N. PATODIA: May I make a small submission, Mr. Chairman, about this particular provision. Apart from moral difficulties, I feel that it will be a futile exercise.

MR. CHAIRMAN: That thing can be discussed when we write the report. Unless I go into the books of the contractor, how shall I know?

SHRI D. N. PATODIA: The point is how can you possibly infringe the secrecy of the contractor's accounts?

MR. CHAIRMAN: We do not want to penalise, but if there is a provision that CAG can go into his accounts, then he will take that risk.

SHRI D. N. PATODIA: Then the best course would be that we may have a provision by which we may ask the contractor to supply to us in

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writing, certified by him, certain information relating to the contract itself and nothing beyond that. That is one point which appears to be reasonable. At best, if you want to make a provision, let us say that whenever the Government finds it necessary to call for certain information relating to that contract, the contractor will supply that information duly certified by him.

MR. CHAIRMAN: There is another thing which should have been mentioned in the morning. I might mention that although the President of the Institute of Cost and Works Accountants of India, Calcutta, had submitted a memorandum, he had not made any specific request for giving oral evidence.

I might also mention that the Secretary, Department of Banking, Ministry of Finance, Government of India, had written to say on the 8th June, 1970 that they were getting the report of the U.K. Select Committee on Nationalised Industries on the Bank of England which had recently been submitted to the House of Commons and that they would be submitting a memorandum setting forth their views on the provisions of the Bill as soon as they receive a copy of the report. This Report might throw some useful light on the working of the Bank of England with special reference to the enlargement of the area of audit of its accounts by the Comptroller and Auditor-General in the context of the provisions of the proposed legislation. I would, therefore, suggest that the Department of Banking should be asked to send their Memorandum by the 10th July, 1970.

SHRI D. N. PATODIA: That is a very good suggestion. If they do not submit the Report by then may I propose that the whole thing should be postponed till they submit their Report.

(The Committee then adjourned with a vote of thanks to the Chairman.)

**MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) Bill, 1969**

*Wednesday, the 17th June 1970 at 9.30 hours and again at 15.00 hours
at Council Hall, Bombay*

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shrimati Jyotsna Chanda
3. Shri Dinkar Desai
4. Shri Nageshwar Dwivedi
5. Shri S. S. Kothari
6. Shrimati Sangam Laxmi Bai
7. Shri Dhuleshwar Meena
8. Shri Anand Narain Mulla
9. Shri D. N. Patodia
10. Shri S. M. Siddayya
11. Shri Nagendra Prasad Yadav
12. Shri Sonubhau Dagadu Baswant.

Rajya Sabha

13. Shri M. Anandam
14. Shri C. D. Pande
15. Shri Sundar Mani Patel
16. Shri Kalyan Roy
17. Shri Thillai Villalan
18. Pandit Bhawaniprasad Tiwary
19. Shri B. N. Mandal

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. Shri A. P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

**REPRESENTATIVES OF THE MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS)**

Shri B. Maithreya, Joint Secretary (Budget).

SECRETARIAT

Shri M. C. Chawla—*Deputy Secretary.*

WITNESS EXAMINED

I. The Institute of Chartered Accountants of India

Spokesmen:

- (i) Shri H. B. Dhondy, *President.*
- (ii) Shri M. C. Bhandari, *Vice-President.*
- (iii) Shri R. N. Sen, *Member.*
- (iv) Shri C. Balakrishnan, *Secretary.*

II. The Shipping Corporation of India Ltd., Bombay.

Spokesmen:

- (i) Shri S. K. Datta, *Secretary, Ministry of Shipping and Transport, Government of India.*
- (ii) Shri C. P. Srivastava, *Chairman, Shipping Corporation of India Ltd., Bombay.*

III. The Reserve Bank of India, Bombay.

Spokesmen:

- (i) Dr. R. K. Hazari, *Deputy Governor.*
- (ii) Shri R. K. Seshadri, *Executive Director.*

IV. The Government of Gujarat.

Spokesmen :

- (i) Shri L. R. Dalal, *Chief Secretary.*
- (ii) Shri R. K. Anklesaria, *Commissioner of Sales Tax.*
- (iii) Shri C. N. Shah, *Deputy Commissioner of Sales Tax (Special Duty).*

I. The Institute of Chartered Accountants of India.

Spokesmen :

- (i) Shri H. B. Dhondy, *President*.
- (ii) Shri M. C. Bhandari, *Vice-President*.
- (iii) Shri R. N. Sen, *Member*.
- (iv) Shri C. Balakrishna, *Secretary*.

(The witnesses were called in and they took their seats)

MR. CHAIRMAN: Mr. Dhondy, we welcome you to this meeting. As you will find, your attention has also been drawn that the evidence that you would give, would be treated as public and is liable to be made public unless you specifically desire that all or any part of evidence tendered by you is to be treated as confidential. But in any case, this is liable to be made available to the M.Ps.

Now you have submitted a memorandum, and, of course, we have gone through it and I hope all members have also seen it. If you have something by way of clarification or addition, you may say so at the outset. Then some of us will ask questions to you in order to get their points clarified.

SHRI H. B. DHONDY: First of all, may I, on behalf of the Council of my Institute and myself say that we are very grateful to you and the Members of this Committee for giving us this opportunity for making our submissions. We were originally invited to offer our comments on behalf of our Institute vide the letter of the Secretary of the Committee dated 28th March regarding certain proposals for extending, the existing provisions in the Bill to enlarge the powers of the C.A.G. in regard to audit into certain areas where at the moment such powers are not given to him under the existing law. We submitted a memorandum in regard to those five additional areas and requested also permission to submit *suo moto* a memorandum on the provisions of the Bill. Now we will make our observations with regard to these two memoranda.

As regards the enlarged areas, our first point is that no indication has been given to us either in the Bill it-

self or in the forwarding letter or in the Statement of Objects and Reasons as to what particular underlying, dominating motivation and purpose there is in seeking such enlargement. We are, therefore, not able to comment whether such purpose is justifiable in public interest or not.

Furthermore, we have not been given any indication in the Bill in regard to other matters as to the nature and scope of the type of audit which is expected from the C. & A. G. and the main purpose of the two memoranda will be to suggest that perhaps it may be worthwhile giving a certain amount of attention to what should be in the light of developments in the area of auditing throughout the world, and what has hitherto been—the dominating purpose of audit, whether it is a public sector undertaking or any other institution, in the context of the requirements of the country and the national effort at rapid economic growth.

As regards the five categories, we have given our reasons why, broadly speaking, we do not feel, on the basis of the information placed before us, it would be in public interest to extend and enlarge the existing powers of the C. & A. G. First, there are existing provisions for audit in those areas. Those provisions broadly speaking, place the duty and the responsibility of audit on the members of my Institute. There has been no allegation, based on evidence, which we would be required to attempt to repudiate that our members have failed to discharge their duties and responsibilities within the limits that the Statute placed on their rights, because if there are rights, there have to be corresponding duties, and *vice-versa*. If there are responsibilities thrust upon them, the rights given to them to dis-

charge their responsibilities must be commensurate to enable them to perform their task. Further, there has been repeated criticism before Committees of Parliament and before Study Groups of the Administrative Reforms Commission, by responsible people about a tendency to duplicate audit and also at times a tendency perhaps to put too much insistence on the wrong type of audit, the type of audit that has become obsolete in most of the advanced countries, and which seems to place impediments at times to the pace of economic growth in our own country.

MR. CHAIRMAN: Could you give us an illustration?

SHRI DHONDY: For example to examine what is generally known as a mere voucher audit. This is an audit which attempts to make an evaluation based on prescribed rules, on the basis of certain paper receipts as to what happened in regard to certain transactions, without at all attempting to understand what was the underlying transaction itself, without attempting to understand what was the objective with which that transaction was undertaken in relation to the objectives of the enterprise as a whole, whether it be a public undertaking or, for that matter a private sector concern.

Take, for instance, the travelling allowances rules. There has been a case, which has been cited to me. The travelling allowance rules permitted an officer of the category concerned to spend, let us say Rs. 5/- for his breakfast when travelling on Government duty to another place of work. The gentleman had a sense of responsibility to his organization. Instead of the full normal breakfast costing, say Rs. 5/- he purchased only bread and a small tin of jam. He was able to procure a receipt for the jam, he purchased, while for the bread purchased from the railway stall, he could not have a voucher. The total cost of these purchases came to Rs. 3/- instead of Rs. 5/-. There was an audit objection raised that while they will allow expenditure on the jam, they will not do so for the bread, be-

cause there was no supporting voucher. This is obviously ridiculous.

MR. CHAIRMAN: This would be happening in the case of your auditors also.

SHRI DHONDY: Our auditors have been exposed in an area where they have been responsive to the needs of the enterprise concerned. If they become obstructive to this extent, they are liable to endanger their own position. I do not suggest that everything is black on one side and white on the other, but, by and large, in an ordinary commercial undertaking, there are a number of reasons why the auditor has increasingly tried to change his methods to assume the constructive role that audit can play.

MR. CHAIRMAN: In the case of private sector, the auditor is appointed by the body which also evaluates the performance on the whole. Therefore, the auditor also will see that this is properly done, but in the case of our public sector, the auditors are not appointed by us; they are appointed by someone else. So this does not actually happen there.

MR. CHAIRMAN: We shall have to find out if the auditor is taking such silly objections and if so what should be the method of audit and how it should be done. Performance is evaluated by Parliament; the CAG appoints auditors and the institution is to be run by a third body. This has to be reconciled.

SHRI DHONDY: The situation is not altogether uncomparable for these reasons. In public limited companies, there is widespread shareholding and the owners are the shareholders. Persons responsible for the day to day management are the managing directors. The auditor is appointed by the owners—shareholders—at their annual general meeting. They have also the authority to evaluate the efficient conduct of the management by the board of directors based on the comments made by the auditors on such conduct of business in so far as the law permits

them to make such comments. The auditor says whether or not in his expert professional opinion the accounts presented by the management truly and fairly reflect the working of the results of the enterprise. On the basis of this management are in a position to recommend a certain return to the owners on the investment they have made. The first item on the agenda of members' annual general meetings is normally consideration and approval of the audited accounts with the report of the directors sent therewith. The second item is considering the recommendation of the directors regarding the declaration of a dividend to the shareholders. In many cases the third item relates to the directors seeking re-appointment after retirement by rotation. The General Body considers whether any change is called for. The fourth item ordinarily relates to the election of auditors for the next year. Changes have been made and criticisms have been voiced and the General Body considers whether the auditors have not discharged their duties efficiently from the point of view of safeguarding their position vis-a-vis the management. In many cases management also control shareholding to a large extent.

When you turn to the public sector undertakings, one can say that while the ultimate beneficiaries are the people of India, represented through Parliament, technically speaking the shareholder is the President of India and he acts through the executive authority, the Government. The role of the shareholder in private sector is in a way exercised by the executive Ministry and it exercises that role in regard to the board of Directors who are appointed; it also exercises that role in collaboration with the CAG in regard to the appointment of auditors.

MR. CHAIRMAN: It is not the executive Government but Parliament which functions as a sort of a general body. The question is how to satisfy the shareholders. The CAG comes in because we have to satisfy Parliament

which represents the people. That is in a way the shareholding community.

SHRI DHONDY: The same shareholders you refer to, Parliament, in their wisdom, 20 or 21 years ago, by an Act of Parliament created a separate and independent institute, the Institute of Chartered Accountants to regulate govern and discipline the whole accountancy profession in the country. One most important function statutorily entrusted to this profession is the function of audit, in the private sector wherever criticisms had been made we see what is the position and very often we find that the criticism was based on a wrong impression of the critic. This check is available. There is no reason why this could not be available equally to Parliament if the agency of Parliament carrying out, the audit is an agency which is noted for its members' professional expertise and an attitude of independence of mind. With great respect to my colleagues with whom we work closely in many undertakings, we have had a longer experience of doing this. It is only recently that Government have come forward to undertake commercial activity on a large scale. Members of my profession have been serving as auditors of large corporations during the last fifty years and the concept of what audit should do is evolving rather more rapidly than in many other advanced countries. It takes time to build up expertise in any field, but we have managed fairly well by and large. We expertise disciplinary jurisdiction over our members in a manner which has won acclaim from independent judicial authorities. In fact in many cases the punishment that we recommended against our members had been reduced by the High Courts. It is a matter of great pride to my Council that in the last 21 years not one High Court in any case awarded a more deterrent punishment than we have ourselves recommended to any member of our Institution.

SHRI SUNDAR MANI PATEL: How many cases have arisen so far?

SHRI DHONDY: I understand that we have had about 520 cases and of these 70 had gone to the High Court and the High Court has drastically reduced the punishment recommended by us. In a most recent case,—I am citing from memory,—the high court has ordered removal from membership for one or two of our members, whom we had considered guilty, to a term of two weeks in one case and one month in another case, as against much higher punishment recommended by us.

SHRI SUNDAR MANI PATEL: You said 520 cases have been referred to the high court?

SHRI DHONDY: 520 cases have been analysed, out of which 70 went to the high court. Our total membership was initially in the region of 2,000. Throughout the history of the Institute, which was set up by an Act of Parliament in 1949, it was only in 1958 by an amendment made in Parliament, that our disciplinary jurisdiction was widened. You must bear in mind that is not the total, uniform pattern for 20 years. For the first half, disciplinary jurisdiction was not entirely in our hands to the extent that it is today. That is the situation.

SHRI DINKAR DESAI: Can you tell us whether in western countries, whether Government audit or any other audit, there are audit boards functioning in any such manner?

SHRI DHONDY: France is the country, to begin with, from which we have derived inspiration recently for the creation of the Audit Board, this is based on the pattern in France. The Vice-Chairman of Hindustan Steel, appearing before the Administrative Reforms Commission or a Committee of this Parliament, submitted that even in France this was not working very satisfactorily. In India, this is a beginning which has been made. In point of fact, not more than a handful of audits may have been carried out

by the Audit Boards today. The position, broadly, is that you have audit organisations in some countries which are set up in the form of departments of Government, which, if I may say so, is most primitive, without meaning any disrespect. They just carry out some functions in regard to the employees of the organisation over whom they are supposed to exercise jurisdiction. There are other areas where the Comptroller and Auditor-General is under the Ministry of Government concerned. Then there are courts of accounts. There, you have the Audit Board, as an example of the court of accounts, or a tribunal, or a court of audit, as they term it.

Then you have a situation somewhat as in India and the USA, where you have an independent authority created under the Constitution in continuation of the existing pattern before the enactment of the Constitution. The functions of the Comptroller and Auditor-General as envisaged in the Constitution, were broadly confined at that time, because there was no large-scale investment in industrial activities by Government, to Government accounting on what I might call the role of normal Government activities, or day-to-day administration.

MR. CHAIRMAN: In article 149 of the Constitution, it is said:

“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.”

Under that provision, there are some rules made for bringing under the control of the Auditor-General not only the Government departments but certain bodies and certain other authorities also.

SHRI DHONDY: I do not suggest that it would not be within the competence of Parliament to do so.

MR. CHAIRMAN: We as Members of Parliament take our oath under the Constitution and to the Constitution.

SHRI DHONDY: This Committee has full authority, and Parliament has ample powers to pass statutes requiring the Comptroller and Auditor-General to carry out the audit of, say, the Bombay Municipal Corporation. The question that I am posing is whether it would in the interests of the Indian public and their economy, for the safeguarding of which Parliament is to make such a law.

MR. CHAIRMAN: May I take it that your submission is that your body should be given this work on behalf of Parliament?

SHRI DHONDY: Yes, Sir. In point of fact, I would submit that Parliament in its wisdom, in the Companies Act, today has done just that for the public sector also. But then you have provided for directions under section 619(3) by the Comptroller and Auditor-General.

MR. CHAIRMAN: We would like to know one more thing. Since you yourself have said that this has been copied from the system in France, formerly, here also, it was under an Act of Parliament which was in operation before Independence. Under article 151, "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." It is his duty. The reports of accounts of the money that goes out from the Consolidated Fund of India have to be submitted by the Comptroller and Auditor-General to Parliament, and to the Governor as the case may be, and so on.

The question is this. Your auditors do what they call voucher audit, and audit the receipts and all those things, which we think is a very normal thing to do. But there is something like what we call propriety audit. In the public sector, many times we have

dealt with this aspect. So, if tomorrow, you were asked that you also will have to do the function of going into propriety audit, will you be able to do that?

SHRI DHONDY: Yes, Sir. In fact, we have been performing it. The latest amendment is less than three years ago, and the directions issued by the Comptroller and Auditor-General were evolved in consultation with our Institute.

MR. CHAIRMAN: You said that you have been doing your job very well, with very few complaints, and that whenever you prescribe certain punishments, they were accepted even by the high courts. When you begin to do propriety audit, do you think the same will be the case?

SHRI DHONDY: Certain words have gained currency in regard to different types of audit in this country. One of them, with great respect to the originators of the phrase, is a complete misnomer. What is readily wanted today is what is called in certain advanced countries either as an efficiency audit or management audit. It is some sort of independent appraisal, overall, of the effectiveness and economy with which management carries out its job. Propriety audit is something which is etymologically akin to voucher audit, whether a transaction is proper or not is precisely in many ways what is called a voucher audit. Now, we have moved from propriety audit to efficiency audit. In point of fact, the audit done both by the members of my Institute and by the CAG in the past has essentially concentrated on legality, whether a transaction was properly done, was legally proper or improper.

As for financial propriety, there are well-established norms for evaluating the propriety or impropriety of a particular financial action. Under certain circumstances, even when the law does not specifically say that a thing would be, according to law, improper in that sense, the

auditor also comments on it. This has been done both by the CAG in regard to Government accounts and by members of my Institute in regard to the accounts of commercial and industrial undertakings.

My main submission is this. We are considering now the broad areas of accounting; one is accounting by Government *qua* Government, i.e. as the governing authority. There I do not for a minute suggest that the CAG is not the proper authority to do it. In fact, he is the authority under Article 149 of the Constitution and our submission is that he should continue to do it. Our submission there is in regard to the type of approach and the purposes for which that audit should be done. The other areas where we are concerned are where Government is engaged in entrepreneurship, business development, etc, and also competing with other members of the public. In regard to those activities, regardless of the form of organisation in which they are carried on, the essential requisite is that the independent appraisal be carried out by people who have (a) integrity, (b) independence and (c) which is equally important, a continuity of experience and professional training in looking for the right things to comment on in that type of function, which is quite different from Government acting as the maintainer of law and order and defence.

About other countries, where a very large sector of the industrial economy has been nationalised, those nationalised undertakings are not audited by the Comptroller and Auditor-General. They are audited by professional accountants in the USA. Apart from auditing, even as regards accounting, large firms of Accountants render services to the Government by providing Accounting Audit and Statistics on which basis Government form their particular decisions, e.g. in regard to the hospitality industry, which includes hoteliery and tourist trade, there is one firm in the USA which has spe-

cialised only in this type of accounting and auditing. This is the information which I got from a member of the Council of the American Institute of Certified Public Accountants when we had the pleasure of entertaining him here. On the basis of the information given by this firm, the US Government formed their opinion about development of hoteliery and travel in USA.

MR. CHAIRMAN: Before you went to USA, you said that nationalised undertakings' audit in UK is not done by the Auditor-General but by firms of Chartered Accountants.

SHRI DHONDY: Yes, Sir, they are generally done by professional accountants. That is also the position in certain other Commonwealth countries. What I am trying to point out is that there will be some time when Parliament can expect some tangible results from it and there also I expect that members of my Institution will be associated with it.

SHRI DINKAR DESAI: You say at the end of paragraph 9 of your Memorandum, page 4 that 'This view of the matter affects the very basis of our profession's existence'. How could it be so when Government only want it to be a further audit and not a substitute audit?

SHRI DHONDY: Why do we order a special or second audit? Is it not because you are not satisfied with the scope of the first audit?

SHRI DINKAR DESAI: Your audit is not taken away. It is further audit.

SHRI DHONDY: What type of audit by this additional authority would be envisaged?

SHRI DINKAR DESAI: Your first audit will be there.

SHRI DHONDY: We will take now the most recent case of nationalisation of banking industry.

MR. CHAIRMAN: But you have not answered that question about your existence.

SHRI DHONDY: My existence is affected very much. You hear about unemployment in the engineering industry. We are having a great deal of complaint by younger members entering the accounting profession that there is less opportunity for gainful employment for them and the reason for that is that the public sector is taking proportionately a larger amount of the new investment into new industries but is giving proportionately far less employment than corresponding amounts of investment in the private sector. Sir, I would say that multiplicity of the wrong type of audit will retard economic growth rather than encourage it.

MR. CHAIRMAN: Just as your existence you say is affected, the existence of the Auditor-General is also in question.

SHRI DHONDY: He is there to look over the whole area of Government accounting. We do not for a minute suggest that the area of operation of CAG should be made our prerogative. But it seems he is spreading his net wider.

MR. CHAIRMAN: Who will be the man who will do the second audit? As regards the type, you experts can sit together and tell us whether it will be propriety audit, efficiency audit or whatever you call it. But the second point is important. You come to that.

SHRI DHONDY: In point of fact, the second and the first type of job no longer is being done in large organizations by the outside auditors.

MR. CHAIRMAN: Because it is done by internal people.

SHRI DHONDY: As part of that system of internal control, you have a department of internal audit. One public sector undertaking, the State

Trading Corporation is a notable example where they have set up this and they have persuaded the C. & A. G. to considerably reduce the extent of his detailed checking of accounts by depending on the internal audit. Given the professional technical competence, he will be looking to the arithmetical, if I may say so, part of the checking. The external auditor, whoever it may be, C. & A. G. or members of my Institute, will have to look whether the system as such is correct and if it is correct, whether in point of fact, it is satisfactorily working. I submit that we are confident to do that and we are doing that. If the Members of my Institute have not got sufficient opportunities, we may be faced with extinction.

SHRI D. N. PATODIA: Your existence is threatened because certain public undertakings are being brought under the audit of C. & A. G., but you have the private sector. Why should you think that your existence is threatened?

SHRI DHONDY: Perhaps, I did not make myself clear. Out of the total investment in industry, the amount in the public sector is increasing comparative to the private sector. Proportionately, the contribution by members of my Institute is not at least the same as in the private sector, but there will definitely be shrinkage in the areas of opportunities for members of my Institute. If I suggested that, that was only the reason. My main submission was that the whole profession exists to render a service to the community. The community does not consist of only private or public or even joint sectors. Now the private sector is not being excluded from the areas proposed to be entrusted to C. & A. G. Nine out of ten of the companies are being subject to further audit and these will be in the private sector. It is not stated whether the ownership has to be directly or even through institutions like L. I. C. which are owned by Government. A substantial proportion of the limited companies will

be subject to the C. & A. G.'s audit, in addition to the audit by our profession. The next stage will be a criticism that perhaps this man is doing his job better; I am a statutorily created authority by Parliament; let me take over these functions.

MR. CHAIRMAN: You have a positive statement that this will endanger your existence. Now what you have been saying is this that even in the private sector, as you have said, this kind of audit is now not being undertaken by external auditors; they are doing themselves. So even in the private sector, this job of auditing will be reduced.

SHRI DHONDY: But the accountants are members of my Institute.

MR. CHAIRMAN: If the members of your Institute can be appointed to private sector, they can also be appointed to the public sector;

Your existence will not be endangered so long as our economy goes on developing and we have to keep more accounts than formerly. Whether you are in public sector or private sector, your existence is there.

SHRI DHONDY: With great respect, I would say, it will not be so. If you kindly refer to para 9 of our Memorandum, you will see that we have stated that the profession of chartered accountants is based fundamentally on the trust which it enjoys with regard to its integrity and independence. To suggest that Government has a right of audit by the C. & A. G. when it is a minority investor, or lender, is to imply that the professional auditor, in such a case, is expected to look after the interests of the majority shareholders, rather than exercise his professional duties by revealing a true and fair view of the state of affairs, irrespective of considerations of majority or minority. This view of the matter affects the very basis of our profession's existence and the implication of the suggested move needs to be carefully considered.

Thus to suggest that Government acting as a minority shareholder, has a right of audit by the C. & A. G. when it is a minor investor or lender is to imply that the professional auditor is not for the community as a whole. That is where you are striking a blow at the very basis on which we claim to perform a public service.

SHRI S. S. KOTHARI: In this case your presumption is not correct that because of supplementary audit by the CAG any distrust of the statutory auditor is implied. In most cases the statutory auditor has to function within the scope laid down by statute and convention and therefore it is not part of his function to examine certain aspects of propriety.

Take for example certain investments made by the LIC; they may be according to the rules, decided by the LIC Investment Committee and satisfy such formalities but the investments may be in X group of firms which may not be enjoying public confidence. A statutory auditor may have to pass them as all right while the CAG may in his supplementary audit comment upon them. He can comment upon whether the concern is functioning within its budget, whether there had been construction delays, whether planned capacity had been fully utilised, etc. It is not now part of the statutory auditor's duty to go into them. If you want to entrust it to him in future, it is a different matter. If the CAG in his supplementary audit goes into these matters, it would do some good to the company.

SHRI D. N. PATODIA: Let me supplement it and you can answer for the whole question. It has to be recognised that the office of the CAG has a special and distinctive function with regard to the working of the public sector projects and whenever we think of the public sector organisations such as corporations fully owned by the Government, etc. to bring them under the broad control of the CAG. Apart from statutory audit, propriety

audit has got to be given to the CAG. If you mean to suggest that simply because the CAG is likely to take over the function of propriety audit, your role gets degraded, that is a different issue because frankly it is not within the scope of this committee. This Committee is to find out the views with regard to certain provisions of the Bill as to how in your opinion these provisions would be in keeping with public interest. For instance, what is your reaction if statutory corporations like the Atomic Energy Commission are brought under CAG's audit? Will it be good or bad? To what extent, in cases of negotiated contracts, propriety audit by CAG would be desirable? In cases of private companies which have taken sizable loans from the Central Government or where the Central Government subscribed 25 per cent of the share capital, etc., what is your reaction to the proposal to extend CAG's audit over them? We should be benefited by your observations on these matters.

SHRI DHONDY: Mr. Kothari has referred to the example of LIC's investments in a group of companies, which may be according to the internal rules, but which are not otherwise sound. Who would be the most proper agency of Parliament to look into such transactions? That is the question he has posed. I submit that it is within the province of this committee to come out with not just an amendment of what is in the Bill but with a positive statement that it should be done by the CAG in consultation with the Institute or it should be done by independent auditors appointed by X or Y. That will be done by amendments with regard to the duties and powers of certain corporations or companies. In regard to the point how far the functions envisaged in the Bill, as opposed to the additional enlargements suggested in the letter, would serve public interest, my first point is that what is the Bill is not at all anywhere near what is suggested in the letter. If one carefully analyses the clauses of the Bill where the

powers and duties of the CAG are provided for, not one of these clauses envisages or includes any of the five additional matters mentioned in the letter. The five additional matters mentioned in the letter go far beyond anything in the Bill. This Bill, to a certain extent, goes beyond the CAG's powers as they stand today under the existing law.

SHRI D. N. PATODIA: The very purpose of this Committee is to examine the comments made with regard to the five points in the context of the provisions of the Bill.

Secondly, the point that I made was that while putting up the case, if you try to by-pass the institution of the CAG, I will only advise you that it will be in your own interest to put it in a way so as not to by-pass the CAG which is an institution created by an Act of Parliament which is going to exist. Within the framework of the existence of the CAG, if you can make observations, it will be more beneficial to the Committee.

SHRI DHONDY: I readily accept that advice. I am not for a minute attempting to minimise the role of the CAG, which has primarily been dual so far. We have made two sets of submissions. One is on the Bill under consideration by this Committee, which is reviewing the entire Bill and in that process is asked to consider certain proposals emanating from the CAG's office for enlarging the points in the Bill.

SHRI D. N. PATODIA: Not the office of the CAG. It is from Parliament itself.

SHRI DHONDY: Yes. First, we were asked only to comment on what is in the letter. What is in the letter goes beyond what is in the Bill, and seeks to enlarge—not to by-pass or minimise the powers of the C & A G—it into an area where he has no jurisdiction today.

SHRI M. ANANDAM: I think there is a misunderstanding as to the func-

tions of the Auditor-General. The question of evaluating the management's efficiency or performance is entirely outside the purview of audit today. It is not part of the audit. It is something else. If we understand that particular aspect of it, I wish to say that if the CAG has got to do a particular job, you should have a separate section in the Act that the CAG will evaluate performance of the management or the efficiency of management in the public sector undertakings. That is the type of work that has got to be done. If we want to consider only audit, I am afraid that this type of distinction between performance audit or propriety audit or regularity audit is futile. Because, even without going into the vouchers or the balance-sheets in a detailed manner, it is possible for an independent authority to evaluate performance with reference to the various aspects and documents. If one wants to go into the efficiency of performance, one can do it in a different manner, without burdening the Comptroller and Auditor-General in the performance of the audit. That is how I would put it. I do not know whether the witness would agree with me.

SHRI DHONDY: I would entirely agree with you. That is what we have said in the second memorandum, at paragraph 2.3 which reads:

"If this more positive concept does gain wider recognition and is implemented in the day-to-day work of the C. & A. G.'s audit staff, there is bound to be a considerable diminishing in the wide-spread—and at times unjustified—criticism."

Then again, I may refer to paragraph 5 of my memorandum where I have commented on clause 13 of the Bill. The clause contains the principal provisions in regard to the responsibility of the CAG for audit as it is in the Bill. It is silent as regards the underlying scope and purpose of that audit, investigation or

enquiry, by the CAG in the public interest, quite independent of the narrower view in the interests of my members, we suggest that this Committee give consideration and spell out specifically in clause 13 of the Bill what is or what should be the overriding scope and objective of the CAG's audit. We are not for a minute trying to criticise what is being done today, but we are trying to place emphasis on the importance, first of all, of Parliament itself, representing the Indian public, deciding what type of function it wants to get done. Secondly, what is the most appropriate authority for doing it. There can be more than one authority, and there will be ample scope for co-existence. In regard to the positive aspect, our submission is in paragraph 2, where in we say that even the Comptroller and Auditor-General of the USA must begin by emphasising that while he is the custodian or the watchdog functioning in this respect, it is the constructive aspects of his statutory duties that are more important.

On page 2 of my second memorandum, in paragraph 2.1, we have quoted:

"GAO often is called Congress' 'watchdog' over Government spending. Its constructive role in appraising and reporting on a wide range of Government activities and operations more accurately reflects its services to the Congress and the Nation."

We have stated this paragraph by saying that the "concept of the overriding objective and purpose of audit has changed from the protective or 'watchdog' role to the constructive, aid-to-improvement-cooperations role in advanced countries, notably in the USA". I just now gave the quotation from the pamphlet issued by the US entitled "GAO—Purposes, Functions Services".

Our main submission in regard to the existing provision in the Bill as

to the responsibility and functions of the CAG is in clause 13; it is found particularly in paragraph 5.2 on page 9 of the second memorandum.

"We have two submissions to make on the language of Clause 13. First, we suggest a specific inclusion in Clause 13 of a statement as to the constructive, overriding purpose and objective for which the CAG is entrusted with responsibilities as to audit. The entire emphasis of the present language of Clause 13(1) is on what may be rightly described as 'regularity audit or 'propriety audit'. (Incidentally, the latter expression has too often been incorrectly used to convey,—which etymologically the words in it do not convey—the

concept of an "efficiency audit"). In fact, propriety audit is regularity audit; one might go beyond that.

"We suggest that it would be in the interests of the nation's economy to amend this language by deletion of the words in sub-clause (2) beginning from "and to ascertain whether the moneys shown" up to the end of that sub-clause. We also suggest the addition of a new sub-clause (2) after such amended clause 13—which would then be re-numbered as clause 13(1)—some-what on the following lines:—

"(2) The over-riding purpose and objective of the audit under sub-section (1) above shall be to assist Parliament and the Government or other agencies concerned in assessing the efficiency and economy of the activities or operations reviewed and in the devising of systems and methods for further, continuing improvement."

Even this function that we have been talking about has two parts. One is improvement of efficiency internally.

For example, in a private sector company the external auditor, acting even under his statutory duties, does in "practice very often advise the Management in regard to certain transactions that may come to his notice in the course of his work, where he feels that they are doing something in an inefficient way which reduces the economy and efficiency of their operations. Now there is no purpose of public interest served by publishing these kinds of reports for the information of shareholders because there is no impropriety involved; there is nothing illegal about it. What I am suggesting is that the CAG has also been doing this kind of thing: reporting internally to the people actually doing the job and suggesting the way by which they can do it better besides the other reporting to the public through the Parliament on how efficiently and honestly and economically they have been doing it. And we need also therefore, in our reporting, to determine clearly those areas where reporting for internal consumption of the people operating the entity is required and the other areas where the reporting is for enabling the public to judge the efficiency and economy of the Management of that particular entity. That concept also I would like to stress. So this is as regards clause 13 of the Bill. Now I have pointed out that in making this recommendation we have given very respectful consideration to what the Administrative Reforms Commission has envisaged and this clause, as it stands today, i.e. clause 13 of the Bill is a verbatim reproduction of the Administrative Reforms Commission's recommendations. The reason why we have recommended a part of this and recommended a new sub-section (2) is—and, of course, before the Administrative Reforms Commission also we made a submission—that there is need to make a clear distinction between these two functions of appraisal: (1) helping the person appraised to do his job better, and the other, i.e. (2) enlighten the public on how well or badly the work has been carried out.

MR. CHAIRMAN: This you want only regard to the Government.

SHRI DHONDY: Yes, this is in regard to Government accounting, i.e. the audit by CAG of Government accounting.

MR. CHAIRMAN: You do not want this to extend to public sector institutions.

SHRI DHONDY: No, Sir.

MR. CHAIRMAN: If we want this function to be performed in regard to public undertakings also, then his authority has to be enlarged.

SHRI DHONDY: This authority already exists under Section 619 of the Companies Act where the CAG is authorised to carry out a supplementary audit. Article 149 of the Constitution also mentions specifically in regard to audit of 'other bodies' by him. He is empowered to do supplementary audit as well as to give directions to the statutory auditors as to the manner in which they should carry out their functions. In point of fact he has been using that power by means of efficiency audit done for him by members of my Institute and he has been using the information brought out from such audit reports to submit overall reports to Parliament. He is also empowered under another subsection to himself carry out additional audit of those undertakings and in point of fact he does it by taking a number of undertakings every year. In the doing of that second function, there has been a great deal of criticism of the manner in which it has been performed, even by the Chairman of Public Sector Undertakings before the Administrative Reforms Commission and before the Committee on Public Sector Undertakings. And there a particular Study Group of the Committee on Public Sector Undertakings, which was headed by Shri Kothari himself, have, in fact, said that they do not have any comments to make on the recommendations of the Administrative Reforms Commission. I will

not go into that aspect of the matter. I am only saying what should be the purpose of the statutory over-riding authority of the CAG wherever he exercises it. Therefore, I submit that this is something that you are suggesting which is not in the interest of the members of my profession.

SHRI S. S. KOTHARI: We appreciate that.

SHRI DINKAR DESAI: Suppose CAG is asked to conduct audit of public sector undertakings. Do you think that will have any effect on their independence?

SHRI DHONDY: With respect, I would submit that while independence may be encouraged by statutory provisions by restricting the number of times the same audit staff may visit a particular corporation, it cannot be created by it alone. The real experience of independence is a state of mind of the person concerned. You may have a gentleman who happens to be a relative of the Managing Director of the concern he is auditing—now permit me to go to another major carrying out of more stringent audit by him. If that state of mind of independence is not there, then the audit will not be carried out by him properly. And this is one of the suggestions that we are making as regards independence of auditing agencies from the agencies whose accounts are being audited.

In our second memorandum—if you now permit me to go to another major point—on page 3, paragraph 3, we have made a point that in principle there can hardly be any doubt or argument that separation of Accounting and Audit functions is a desirable objective to work towards, for Government, no less than for commercial or business activities in corporate form, whether in the public or the private sector. This has been discussed on previous occasions also. Various practical difficulties have been pointed

out. It was mentioned fairly recently to the Administrative Reforms Commission and they have listed these practical difficulties for affecting an immediate change. But with due respect, I may say one of the reasons why the CAG staff cannot devote their time to the same extent, they otherwise would, to carrying out of this constructive and positive role is that we are spending a lot of time in writing out, what may be called, consolidated accounts received from treasuries and so on. So they have the first responsibility to see that the account write-up is correct and the second responsibility is to give an independent opinion on that.

MR. CHAIRMAN: Accountant General is our Auditor General's man. So he consolidates the accounts of the State as and when they are coming in. If the Auditor General or the Accountant General is not sitting over his own acts, keeping the accounts is a different thing. Audit is not the keeping of the accounts only but to see how this money was spent and whether it was properly spent. This is not the purpose of consolidation.

SHRI DHONDY: But it is the part of the consolidation to present the result of that account under different categories.

In fact, the statutory requirement is much more. Clause 11 requires the C. & A. G. to prepare the annual accounts separately for the Union and each of the States and Union Territories showing the receipts and disbursements. Now the text here is showing the receipts and disbursement.

MR. CHAIRMAN: The receipts are not manufactured, they come from the States.

SHRI DHONDY: Whether a receipt shown as such was really income from sale something the consolidating A.G. must depend upon the Treasury report for. But if he finds, later that it was not income from sales, he will naturally try, as far as possible, not

to highlight. This, so as not to expose the earlier error in recording.

MR. CHAIRMAN: After all you are there, your fraternity is there.

SHRI DHONDY: The Companies Act specifically contains as a disqualification for appointment as statutory auditor a provision that if he is an officer or employee of the Government, he cannot be a statutory auditor.

MR. CHAIRMAN: You stand for the accountancy. Do you mean to tell that chartered accountants are not accountants in the private sector. So, if I am the Auditor General, my own people are consolidating.

SHRI DHONDY: The point is, let us take a concrete case. If Mr. A, chartered accountant, is an employee of X Ltd. and writes its accounts, another member of my Institute Mr. B. audits that account. So long as Mr. B is not an employee of X Ltd., there is no occasion to evade responsibility for accountability for whatever Mr. A has done. But in the case of C. & A.G. Mr. A and Mr. B may be different individuals, but they will both be reporting to C. & A.G. The ultimate responsibility of Mr. B is, in fact, to report, whatever A has done.

SHRI M. ANANDAM: What the Accountant General does, he compiles the account without referring to the expenditure. He just compiles the accounts. The entire expenditure is met by the various Departments for which expenditure has been budgeted. They maintain the whole thing. Accountant General maintains the account, but it does not mean that he is responsible for the expenditure. It may be possible only in the case of public sector undertakings, where the C. & A.G. cannot maintain the account, but at the same time audits them. I would agree there, but in the case of other departments of the Government, he just compiles the accounts.

SHRI DHONDY: May I go to the next point?

The C. & A.G. has the power to prescribe the forms. Our submission in regard to this is in paragraph 4.1 on page 6 of our memorandum. Government accounting itself needs to be re-oriented to provide more useful information than is available readily from such accounts at present for decision-making at various levels within the Government. There are appropriations, Parliament's sanctions, certain expenditure requests for grant of appropriations and one has to see these with reference to the purpose for which these were authorised. Government activity has increased so much and it has become so complex all over the world today that the primary purpose of the accounting itself has changed. In a very recent issue of the Journal of Accountancy published by the Institute of Certified Public Accountants of U.S.A., there is an article on managerial approach to Government accounting. There we find that they are attempting the same sort of exercise, which, our Institute had submitted in a memorandum to the 4th Finance Commission. In the report of the Finance Commission, there is a memorandum designed primarily for this purpose of responsibility accounting. Our submission in this memorandum here is that in that particular clause of the Bill charging the C. & A.G. with the responsibility for designing and keeping under review the forms of Government accounting, perhaps this new concept of the purpose of Government accounting could be given due weightage and my Institute will be very happy to associate itself with it. So also the CAG in consultation with the Institute can undertake to keep under review the effectiveness of the methods of Government accounting and revise the forms of Government accounting to provide useful information for decision making at various levels within the Government. That is another major point covered by paras 4.1 to 4.4 at pages 6-8 of our second memorandum.

श्री न० ३० धारा : चैयरमैन साहब, मैं चाहूंगा कि जो अभी इन्होंने बिचार व्यक्त किए उस का हिन्दी अनुवाद किया जाय जिससे कि हिन्दी में हम उसे ठीक तरह से समझ सकें।

सभापति महोदय : यह तो नहीं हो सकता क्योंकि इस तरह पूरे का ट्रांसलेशन करने लग जाएंगे तो बड़ी मुश्किल हो जाएगी और उस में समय भी दूना खर्च होगा। जैसे पार्लियामेंट में साइमलटेनियस ट्रांसलेशन की व्यवस्था है, वैसी व्यवस्था यहां नहीं है। जैसे बड़ी बड़ी कमेटियों में मैं समझता हूं वह होना चाहिए। मेरी आप के साथ पूरी सहानुभूति है और पार्लियामेंट में हम ने इस के लिए लड़ाई लड़के यह व्यवस्था वहां कराई है। मगर यहां यह नहीं हो सकता। वैसे मैं उन से कहूंगा कि पांच मिनट में सब का सारांश वह बता सकें तो बता दें।

श्री भण्डारी : मुख्य बात यह थी कि जो आडिटर जनरल को कुछ विशेष अधिकार दिए जाने की मांग की गई थी उस के बारे में हम लोगों ने यह सुझाव दिया कि हम जो चार्टर्ड एकाउंटेंट्स हैं, वह भी पार्लियामेंट के ही बनाए हुए हैं। पार्लियामेंट ने 1949 में एक ऐक्ट पास किया था जिसके अंतर्गत इस इंस्टीट्यूट की स्थापना हुई थी। इसके मेंबर्स की स्पेशल ट्रेनिंग होती है और साल की और उस के बाद उस की परीक्षा होती है। पहले तो कुल 5-7 परसेंट उस का रिजल्ट होता था, अब 15-20 परसेंट होने लगा है। इस तरह के 11 हजार छात्रों अनुभव प्राप्त किए हुए अपने देश में हैं। तो अगर कमेटी यह अधिकार सी ए एण्ड ए जी को देने के बजाय हमसे कहे इस काम की करने के लिए तो हम अपने एक्सपर्टिज को मैक्सिमम यूज में ला कर इसे अच्छी तरह कर सकते हैं। इसलिए आडिटर जनरल को ऐडिशनल पावर देने की आवश्यकता नहीं है।

SHRI THILLAI VILALAN: Please refer to page 3, paragraph 7. You say that Government should not confuse its role as a banker and investor with its role as the ruling authority. Can you clarify this?

SHRI DHONDY: This is in our first memorandum, page 3. This is a continuation of the trend of thought in regard to the second category referred to in that letter about extending the powers of the CAG over areas which are not in the Bill. This category covers a proposal that the CAG should be empowered to carry out either compulsorily or at his option the audit of all companies in which Government hold 25 per cent or more of the ownership and the value of the investment by Government exceeds Rs. 1 crore.

The first point of difficulty in paragraph 5 is that, as I mentioned, the suggestion does not clarify what is meant by investment. Do you mean direct share capital? If so, there will be very few companies where Government holds 25 per cent of the value of Rs. 1 crore or more, and does not hold more than 50 per cent. In that case, under the Companies Act, the CAG has powers. Or, do you mean that by this investment, it is not just shareholding but also money lent? In the case of Hindustan Steel, for instance, with a capital of Rs. 500 crores, there is a loan by Government of an almost equal amount. Are you going to say, in working out, whether it is on the 25 per cent of the share capital of Hindustan Steel, which is relatively a small amount, or, are you going to say that it is the total capital employed in Hindustan Steel which is about Rs. 1,200 to Rs. 1,400 crores? That point has not been clarified.

Secondly, out of Rs. 1,400 crores of the total assets employed, Rs. 1 crore is in the type of undertakings where Government are interested; there will

be hardly a Central Government undertaking which has less than Rs. 1 crore.

We are now concerned with the case where Government owns or holds more than 24 per cent but not more than 50 per cent of the ownership of the company. Government in that sense is in a minority; it is a minority owner. There may be two groups in a public company. One of them may be in the management with 40 per cent of the capital and the other may have acquired publicly 30 per cent, and wants to get into the management, and they may be fighting. You may have read in the newspapers similar instances recently. The question arises this way. In regard to the private company, an auditor is appointed by all the 100 per cent owners, not the 40 per cent or the 30 per cent, but by the 100 per cent owners of the company at the annual meeting. He is not supposed to represent 40 per cent only who happen to be in control of the management or the other 30 per cent of the owners.

MR. CHAIRMAN: Legally.

SHRI DHONDY: Yes; you must assume that the apparent state of affairs is the real state of affairs unless proved to the contrary. The LIC, for example, itself exercises with 20 per cent shareholding, an effective control over certain broad fields of activity. The point is that if under the Companies Act, there is a provision regarding the power to appoint auditors, saying that 100 per cent of the shareholders in the annual meeting have to decide, the result would be that the auditor is responsible to the 100 per cent, regardless of whether the management is controlled by one group or another. If you say that there is one particular type of institution which owns more than 24 per cent but less than 50 per cent of the total shares, we will give them the authority to have their own second special auditor, equally the question can be asked by

the other private parties who may own more than 25 per cent but less than 50 per cent, and are not able to control the 100 per cent, "Why should we not have that right?"

MR. CHAIRMAN: They are also covered by that, because we are their representatives. We are not only a minority shareholder. We are shareholders for all; even your shareholders, if you take the legal aspect of it. Actually, in Parliament, we represent the whole country including the shareholders for whom you are carrying on the audit.

SHRI DHONDY: But your immediate authority has been delegated by your own statute to the shareholders owning 100 per cent of the shares of that particular company. Similarly, in the case of a Government company, your authority has been delegated to that company. I am talking of the Government as an immediate authority to which Parliament has delegated the authority.

MR. CHAIRMAN: We are talking of the CAG who is the auditor for the whole country. When Government enters it, because we are more than 25 per cent and less than 50 per cent, we are not doing it as a minority shareholder. It is not the correct position. We have to look to the interests of the country as a whole and the interests of the shareholders who are left out. To put it as if we are a minority and they are a majority is not correct.

SHRI DHONDY: The enquiry was in regard to the meaning of paragraph 7. Take, for instance, investment of another type: lending. Today, this country has borrowed, as a matter of policy, from more affluent countries, from international financing agencies and from national financing agencies. For example, the World Bank or a particular Government organisation like the US Aid have invested substantial amounts. Under their agree-

ments, they have tried their best to have their right to appoint auditors of their choice to carry out the audit over and above the audit carried out by the Indian auditors. If it is a foreign lending agency, they will bring in their person, which is understandable. In spite of that, we have been able to satisfy the stringent requirements of the US AID who are not satisfied with many other countries, with our accounting and audit, the standards of which are as good as theirs. So, they accept a certification by us. If they require an additional certificate, it is between them and the company to request an auditor to give it.

SHRI M. ANANDAM: If the total holding of Government is more than 50 per cent of the total investment in the company, why not have control over audit?

SHRI DHONDY: Only if one is not satisfied that the person appointed is adequately equipped. If you can make an investigation and find that there is some lag, and given the authority, he is still not doing the job, I would be first to say, "Let the CAG do it." But without any necessity, why should we impose an additional restraint? Even the constructive type of audit would act as a necessary restraint. Too many of these restraints can go against the underlying purpose and arrest initiative and it may also inhibit the growth of national wealth.

Are we really doing something which advances the interest of the public which Parliament represents or would it really retard it?

SHRI DINKAR DESAI: My point is this. I would like to know from you as President of this Institute, whether there should be a provision in the Act to the effect that the Auditor-General should not be employed after retirement?

SHRI DHONDY: We are coming to another part of my second memorandum. I have to make only certain limited observations in regard to the conditions of service of the CAG. The present position in the USA, for example, of the Comptroller and Auditor-General is that he is appointed for a term of 15 years. He can only be removed on the authority on which a Justice of the Supreme Court may be removed. In point of fact, there is similar provision in our Constitution also.

SHRI DINKAR DESAI: I am not talking of removal, but of employment after retirement.

SHRI DHONDY: Clause 6 of the Bill says that if the CAG is a man, who before his assumption of office, was a Government Servant, he shall be deemed to have retired from service on the date on which he enters upon office as CAG. Then there is another clause in the Constitution, which says in effect, that the CAG after he retires, shall not hold an office under Government. This provision is already there in the Constitution. But today we have the case of a CAG who has accepted appointment in a private company; of course, he is not an employee of Government.

SHRI DINKAR DESAI: He can be employed in a private firm.

MR. CHAIRMAN: He wants to know your opinion as to whether, consistent with the provisions, you feel that this freedom should be given to him or it should be restricted?

SHRI DHONDY: To answer that question I will have to refer to two suggestions. One is regarding the area from which you recruit and the other is regarding the tenure of office, because they are related there. If you decide on those two, that will solve the whole thing. The present provision in the Bill is that the term of office of CAG will be 6 years. Therefore, you will attract to the

post only those people who have either retired or are about to retire.

MR. CHAIRMAN: You can say since he is in the position of a Judge, the same conditions should apply to him.

SHRI DHONDY: But, Sir, a Judge will not hold office for a limited term. The basic difference is that we are providing in the Bill a clause which says that his term will be of 6 years' duration. Now, if you say it will be 15 years, the chances are you will get a man relatively younger with more initiative. If he takes up appointment at 45 and retires after 15 years, then you may have that restriction, but otherwise what will he do after retirement so early?

MR. CHAIRMAN: Then, what is your view?

SHRI DHONDY: My view is that we should change two things. The area of recruitment also should not be confined to what very eminent people have said 20 years back. In Australia and Canada the CAG is a member of the professional organisation, representing the accountancy profession. What we are saying is that just as Government of India, for example, in the Law Ministry, where they require expert technical advice, appoint their Secretary from the ranks of practising Solicitors with experience of work for the Central Government, so also in the case of the Comptroller and Auditor-General there should be no objection to it, whether in statutory terms, or real terms. We should appoint a professional person with adequate experience. I readily concede that there must be adequate administrative experience, but with that if you have an additional qualification of professional training, outlook and independence of approach, that should give you an excellent man.

Now, how do we attract that? First of all, he should be a professional man; he may have professional experience.

Secondly, we must ensure him a sufficient tenure. If he is appointed at the age of 45 or 50 years and then he retires after 10 years or so, then I think it would be reasonable to say that after that he should not make up any job in the private or the public sector.

SHRI DINKAR DESAI: If sufficiently long duration of service is given, you will say it is all right.

SHRI DHONDY: Yes, Sir.

MR. CHAIRMAN: I think you have made yourself clear.

SHRI S. S. KOTHARI: I want to refer to page 2 of your first memorandum where you have stated in para 3: "We mention this because at present there are a few corporations which are not presently subject to such audit, but are audited only by the C. & A.G." Would you kindly amplify the statement.

SHRI DHONDY: ONGC, Air India, Industrial Finance Corporation, etc. are examples of other corporations. Broadly speaking, Government engages in industrial, commercial and financial activities under two forms of organisations. One is a company registered under the Companies Act and the other is a corporation under a separate Act of Parliament. Examples of the first type, which by far are the largest in number, are Hindustan Steel, the Indian Oil Corporation, and so on. Examples of the second type are the State Bank of India, the Indian Airlines Corporation, Air India and the Industrial Finance Corporation.

SHRI S. S. KOTHARI: I am talking about your specific statement that there are a few corporations which are not presently subjected to such audit. What is your suggestion about that?

SHRI DHONDY: My suggestion is that the provisions in those respective Corporation Acts should be amended on the lines, for example, of the

Industrial Finance Corporation Act, where the auditors are appointed by the owners and certain representative interests from practising independent members of the profession rather than having a departmental man. For example, in Indian Airlines Corporation there are no statutory auditors appointed, but the CAG is to do the audit. In spite of that, looking to the realities and the requisite commercial background and experience, the Board of Indian Airlines Corporation have, in fact, appointed members of my Institute as consulting internal auditors to report to Management over and above the CAG audit. Air India is another case.

SHRI S. S. KOTHARI: That means Chartered Accountants are required. But instead of doing it directly, they utilise their services indirectly.

SHRI A. N. MULLA: Mr. Dhondy, I will take it that your stand is that the chartered accountants have been functioning efficiently and no allegation has been made against the way they are doing their function, it is unnecessary that they should be subject to the added supervision of the C. & A. G.

SHRI DHONDY: That is one of our main point.

SHRI A. N. MULLA: Now would you be satisfied if a condition should be there that the C. & A.G. would be a chartered accountant.

SHRI S. S. KOTHARI: That is not a relevant point.

SHRI DHONDY: I would like to answer the question. I have accepted the fact that as stated by you one of the main submissions we make is that chartered accountants should be allowed to function even in the public sector undertakings carried on in corporate form without undue supervision by another audit agency. Then you raised the question whether super-

vision should be acceptable if the supervisor was one of our own members by insisting that the C. & A.G. should be our man.

With great respect, I would say that what you propose implies that I am appointed by an organization to audit their accounts and they have got another man above me for the same purpose. It would immediately imply that they are not satisfied with my audit and they do not value my audit, in which case why they should have me. That would be the logical question.

SHRI A. N. MULLA: You are aware that the same persons who are functioning as Judges, they become High Court Judges and those at the High Court, become Supreme Court Judges. When they reach that position, though they come from the same class, but because of the higher status that is given to them because of the work that they have done, they are given that distinction and nobody feels that.

SHRI DHONDY: That analogy would not be applicable here. In the case of the judiciary, a gentleman who was a District Judge or a Magistrate eventually becomes a Supreme Court Judge. He exercises statutorily vested appellate functions. In the case of audit, what is being done is that the person you appoint to do the audit exercises an entirely independent appraisal for you. Now there is no question of judicial review of that appraisal by an appellate authority. If you try and introduce this concept, you will introduce layers of value of importance you attach to different types of audit.

SHRI A. N. MULLA: Where public funds are involved, I think, you would agree that the people of the country are also involved in the matter and a sort of confidence should be created in the minds of the people that to the best capacity, the Govt. is doing its best to safeguard these funds.

SHRI DHONDY: I entirely agree with you. Then the best thing is to strengthen the Parliament's expression of confidence in an Institute of professionally qualified and trained people which Parliament itself created. Therefore, I submit that the correct solution would be rather, as responsible representatives of the people to bring home to the people that an audit by an independent professional man has the same stamp of safeguard of public interest as an audit by a retired government employee.

SHRI A. N. MULLA: Then your contention is this—please do not put another person at the top, adopt us as your children, why bring in someone else from outside.

SHRI DHONDY: There is no need of adoption. You—Parliament gave birth to us. You recognised us when you—Parliament—as far back as 1949, set up this Institute. So we are your children. By submission was that you do not throw us out.

SHRI A. N. MULLA: You see, whenever a riot occurs or there is an incident of a serious nature, a demand is made that a High Court Judge or a Supreme Court Judge should be asked to conduct that enquiry. Why not be a judge? It is because of the status attached to a particular post that a huge confidence is created and can be depended on more although the District Judge is also a part of the judiciary.

SHRI DHONDY: If we go beyond mere sentiment to substance looking to the size of operations, ultimately it may appear, who does really carry out the work of audit. Is it possible for an individual himself to carry out the audit of these multifarious types of transactions of so many different Corporations?

As regards public money, I can only repeat that if Parliament, in its wisdom, feels that it made a mistake 20

years ago in creating my Institute—and I submit that this should not be an emotional reaction, but a studied appraisal of us on objective evidence, which we should be given an opportunity to rebuilt—then the next step would be to consider as to what to do with that Institute and how to scrap it if necessary, and if the public interest requires this.

But we do not wish to be given an inferior status without any evidence. On the contrary, we want you to encourage us in the public eye and it is certainly your authority to give us that status.

श्री नरेंद्र प्रसाद यादव : मैं आपसे जानना चाहता हूँ कि जिन बैंकों का राष्ट्रीयकरण हुआ है, चार्टर्ड ऐकाउंटेंट्स से उनका आडिट होना चाहिए या नहीं, इसके बारे में बतायें।

श्री डौंडी : जी हाँ, उनका आडिट चार्टर्ड ऐकाउंटेंट से होना चाहिए, अब तक का यही प्रावजन है। नेशनलाइज्ड बैंक्स की आडिट चार्टर्ड ऐकाउंटेंट से होनी चाहिए। लेकिन जो ऐडमिनिस्ट्रेटिव मिनिस्ट्रीज हैं, यह उनके हाथ में है कि वे क्या करेंगे। अगर आप बन्दोबस्त करेंगे कि हम लोग करें तो हम करेंगे, अगर आप नहीं करेंगे तो वह भी हमारे हाथ से चला जाएगा।

श्री बी० एन० मंडल : सी० ए० जी० के लिए कहा गया कि जो कंसोलिडेटिड फंड का रुपया है उसकी पूरी निगरानी उसके द्वारा होनी चाहिए। जो बिल हमारे सामने है, उसका जरिये सी० ए० जी० का इफेक्टिव कंट्रोल कंसोलिडेटिड फंड के ऊपर कायम किया गया है। जब कि हिन्दुस्तान के संविधान में, कंसोलिडेटेड फंड का रुपया ठीक से खर्च हुआ है या नहीं, इसकी जिम्मेदारी सी० ए० जी० पर दी गई है तो आप क्यों उस पर ऐतराज करते हैं? जो पावर सी० ए० जी० को इसमें दी जा रही है, उसको क्यों यूजलेस करते हैं। आप कहते हैं कि वर्क का ड्युलिकेशन होता है, वोवारा मेहनत होती है। लेकिन

हिन्दुस्तान के संविधान में सी० ए० जी० को ही पूरी जिम्मेदारी दी गई है कि वह अपनी राय जाहिर करे पार्लियामेंट और प्रेसीडेंट के सामने कि रुपया ठीक से खर्च हुआ है या नहीं इस काम के लिए उसको इस एक्ट के जरिये जो स्पष्टी तोर पर पावर दी गई उस पर आप क्यों आब्जेक्ट करते हैं।

श्री डौंडी : मैं उसको आब्जेक्ट नहीं करता हूँ। कंसोलिडेटेड फंड का आडिट तो वह करे उसके बारे में मैंने कुछ नहीं कहा। मैंने इतना ही कहा कि जन इंस्टीट्यूशन के बारे में यहां लिखा है वह कंस्टीट्यूशन में भी सी० ए० जी० नहीं करता है, मेरे इंस्टीट्यूशन का आदमी उसका आडिट करता है इसलिये वही करना चाहिये।

श्री मंडल : मेरा मतलब यह है कि चूंकि फाइनल रिस्पॉसिबिलिटी संविधान की ओर से सी० ए० जी० को दी गई है इसलिये प्रेसीडेंट के सामने या पार्लियामेंट के सामने उसको रिपोर्ट देनी चाहिये।

श्री डौंडी : रिस्पॉसिबिलिटी जो दी है वह रिस्पॉसिबिलिटी यह है कि आडिट करना चाहिये। उसमें गवर्नमेंट अंडरटेकिंग नहीं आती है।

श्री मंडल : एक-एक पैसा जो कंसोलिडेटेड फंड का है चाहे पब्लिक अंडरटेकिंग में हो चाहे 25 परसेंट गवर्नमेंट के शेयर में हो या जो उसका कंट्रैक्ट है उसमें हो जहां जहां भी गवर्नमेंट का रुपया है उसको देखने का अधिकार अगर सी० ए० जी० को दिया जाय तो हम समझते हैं कि आपको कोई आब्जेक्शन नहीं होना चाहिये। आपका जो फंक्शन है वह ठीक है लेकिन सी० ए० जी० को उसके ऊपर निगरानी के रूप में रखा जाता है तो आपकी तरफ से कोई आब्जेक्शन नहीं होना चाहिये।

श्री धोंडी : सी० ए० जी० का जो डिपार्टमेंट है उसका भी खर्च कंसालिडेटेड फंड से आता है तो उसका भी आडिट होना चाहिये। कांस्टीट्यूशन में यह है कि "इट शैल बी ए चार्ज मान दि कंसालिडेटेड फंड" उसका कभी आडिट नहीं होता।

श्री मंडल : चूकी कांस्टीट्यूशन में उसका खर्च कंसालिडेटेड फंड से दिया गया है इसलिये जरूरी है कि उसकी जांच होनी चाहिये कि ठीक से खर्च हुआ है कि नहीं और गवर्नमेंट को अपने इतमीनान के लिये एक आदमी द्वारा जानकारी प्राप्त करके सेटिस्फैक्शन होगी। वह सी० ए० जी० की रिपोर्ट पर होगी। सी० ए० जी० की रिपोर्ट फाइनल समझी जाएगी।

MR. CHAIRMAN: You say that when we put another supervisory authority over you, you feel that we are not trusting you and your profession. Here is a question which we have to decide because we have to carry the confidence of the people and we have to keep your confidence also. If it is a question of choosing between the two, which do we choose? If the public is going to be satisfied only with the CAG guaranteeing that everything is OK and if you object to that, there is the difficulty.

SHRI DHONDY: The answer can very well be this. Parliament in its wisdom provides that the CAG would have the authority and would be empowered to discharge that authority and entrust the work to the agency of independent professional accountants. That is what is being done today.

MR. CHAIRMAN: We follow. That is the present position. There, only indirectly the CAG is in it, indirectly under the Companies Act. This issue would not have arisen normally but the atmosphere in the country is that they are saying from top to bottom there is a lot of corruption. Naturally we have to carry the confidence of

the people and show that at least in these undertakings there is no corruption. If CAG were to say that there is no corruption, probably people would take it. Even about the judiciary on which we had so much confidence, people have started talking differently of late. So it is a question of carrying the confidence of the people. The choice is: should we give a little annoyance to you or more annoyance to the public, which means Members of Parliament.

SHRI DHONDY: I quite appreciate that justice should not only be done but appear to be done. The public must be reassured.

MR. CHAIRMAN: We have followed the import of your submission and it will now be for us to judge what would be the best way. We appreciate your suggestions, particularly those in your second memorandum. You have given some food for thought and we are thankful for enlightening us on these questions in which we are all novices; we do not keep accounts ourselves. Thank you very much.

SHRI DHONDY: I should express my thanks to the committee. I would only invite your attention to the last para of the memorandum, which talks of the co-operation which you mentioned. It need not be a choice of one or the other; it can be co-operation between both.

(The witness then withdrew)

II. Shipping Corporation of India, Bombay

Spokesmen:

- (1) Shri S. K. Dutta, Secretary, Ministry of Transport and Shipping.
- (2) Shri C. P. Srivastava, Chairman, Shipping Corporation of India.

(The Witnesses were called in and they took their seats)

MR. CHAIRMAN: We are very happy to meet you here. We have seen your memorandum. We would like you to say anything that you wish to say by way of clarification or by way of addition to what you have submitted so that the Members can ask you questions.

SHRI S. K. DUTTA: Do you want our views about the audit of statutory corporations as well as others? I suppose they are already being audited by the Comptroller and Auditor-General.

MR. CHAIRMAN: If you say anything in addition, then, the Members will proceed to put questions.

SHRI DUTTA: I have not got anything to say further, and so, questions may be asked.

SHRI S. S. KOTHARI: We learn that considerable amounts of subsidy are being given to the shipping companies in the private sector by your Ministry. A proposal came before the Committee that when subsidies are given, the audit on their utilisation should be done by the CAG. What is your view?

SHRI DUTTA: We do not give any subsidy as such. The only thing we have, is the Shipping Development Fund which advances loans at three per cent interest to the shipping companies, both in the public and the private sectors. Actually, every country in the world is directly or indirectly subsidising its shipping or shipbuilding. We give a long term loan of 18 years. It is at three per cent interest. We have got very strict control ourselves because we had got one Government Director on each Board. Now there will be two Government Directors on the Board of each company. We have given to the Government Directors detailed instructions to be really effective, not just to look into the formal matters but go into the commercial operation and cash flow and everything, because we are interested that the companies run well.

Secondly, whenever any loan proposal comes, it is not automatically processed to offer up to 95 per cent of the cost of the ship allowed under the Rules. It is not automatic. The Government Directors go into it very thoroughly, and in some cases we give 40 per cent, and we want the shipping companies to plough back their reserves to the development of shipping. We have this precaution also of looking into all their surpluses.

So far as the Shipping Corporation is concerned, it is a public sector company and it is under the Auditor-General's audit. The Mogul Lines is also a Government company. It is also under the Auditor-General's audit. The Jayanti Shipping Co., is on a different footing. We are running it entirely through the Government.

SHRI S. S. KOTHARI: Are the loans clean, or, do you take mortgage of shares?

SHRI DUTTA: The first mortgage is to the fund of the ship plus something. We take 133 per cent security.

SHRI S. S. KOTHARI: With regard to utilisation, is the money advanced utilised for the purchase of the ships?

SHRI DUTTA: It is going direct from us to the Shipyard or Bank. The Company hardly see the money. We are responsible for the rupee part but the Fund often stands guarantee. Foreign exchange is usually arranged through suppliers' credit obtained from the foreign country as part of aid.

SHRI S. S. KOTHARI: This Shipping Corporation and the other companies earn a lot of foreign exchange. A proposal before the Committee is that the Comptroller and Auditor-General should be authorised to test-check on a consultative basis on the foreign exchange transactions. What would be your reaction?

SHRI DUTTA: I think the Reserve Bank has got powers. Anybody who is earning foreign exchange has to file elaborate details to the Bank.

SHRI S. S. KOTHARI: Perhaps the question should be directed to the Reserve Bank.

SHRI DUTTA: If we get complaints, we ask the Reserve Bank. In so far as the Government companies are concerned, the accounts are audited by the Auditor-General. So far as private companies are concerned, I think we have taken ample precautions to see that loan amount is utilised fully and the business of the companies is conducted in such a manner that our funds are not in jeopardy.

SHRI S. S. KOTHARI: What is the composition of the Jayanti Shipping Corporation and what is the net amount of loss suffered by the Corporation on account of Teja?

SHRI DUTTA: So far as the Company is concerned, it is on a very sound footing. Government funds are not jeopardised on any account. All our loans are being paid back regularly. What has happened is that things which should have come to the Corporation as earnings, Teja has got them. Now we have started various suits to recover the amounts. For example, he chartered a ship for 16 shillings but he has shown in the papers 15 shillings and one shilling he has kept for himself. Similarly, certain discounts which should have come to the Company, he managed to keep to himself. These are some of the things into which we are looking now and trying to recover through Court.

SHRI S. S. KOTHARI: Are there no private shareholders?

SHRI DUTTA: Few private shareholders are there, but Dr. Teja is the major shareholder. Basically the company is in a very sound position.

SHRI S. S. KOTHARI: What is the percentage of Government share in Jayanti Shipping?

SHRI DUTTA: Government has no share holdings in it. We just paid the loans and we are realising them.

SHRI M. ANANDAM: Mr. Teja has earned so much money? Could the auditors point it out?

SHRI C. P. SRIVASTAVA: Well, sir, most of these transactions, which are now in dispute, were conducted by Dr. Teja in foreign countries. Of course, in any business it is possible for a person, if he is so inclined, to commit fraud, but he is soon found out. In this case also, he started doing wrong things in 1963 and Government found it out and took over control of the Company. So, while it cannot be said that a ship owner cannot commit fraud; he can do it but he can be found out. Dr. Teja did it and he was caught. No shipping company can appropriate its foreign exchange earnings directly. All expenditure has to be approved and has to be reported to Government. In the same way, Dr. Teja's misdeeds also came to light.

So far as the audit part is concerned, perhaps things could have been detected a little earlier if Governmental audit of transactions had taken place.

MR. CHAIRMAN: They had their auditors.

SHRI SRIVASTAVA: They had their auditors but they could not discover it. The explanation ordinarily is that when a company is being run properly, they cannot reasonably disbelieve the management but when some suspicion arises, they can thoroughly go into the things.

SHRI S. S. KOTHARI: Money may not have come in the books.

SHRI SRIVASTAVA: If you charter out a ship at the rate of 16 shillings but in collusion with charterers

you show it as 15 shillings only on paper, then one shilling is taken away so that there is no document before the auditors to detect it.

SHRI S. S. KOTHARI: Where new ships are purchased, is it the usual practice for the manufacturer to give some kind of commission to the Company or the agent through whom you purchase it? What is your experience in this regard?

SHRI SRIVASTAVA: In the whole international shipping world, there is the practice that normally the shipping companies employ their brokers to purchase ships for them. The brokers perform some service for which certain remuneration is paid to them.

SHRI S. S. KOTHARI: What is the percentage?

SHRI SRIVASTAVA: Ordinarily it is not more than 1 per cent of the total price. But so far as we are concerned, whenever we buy a new ship, we inform the ship owners that no intermediary whatsoever is employed by us and that we want to deal with them direct and no commission is payable. So, we say that the price has to be negotiated on the basis of the net amount payable. If any commission is payable, it is included in the price itself. There is no question of any commission where the deal is negotiated directly with a shipyard.

About the purchase of second-hand ships, I must mention that they are placed on the market only through brokers and it is not possible to get in touch with the owners directly. But there also we have specified—and we have appointed a firm of brokers—that not more than 1 per cent total commission will be included in the price and of that $\frac{1}{2}$ per cent will be officially given to the Shipping Corporation itself and the other half will be retained by the brokers.

SHRI S. S. KOTHARI: Is the London staff rendering you all the help? Are you satisfied with it?

SHRI DUTTA: We consult them on specific matters and not on day-to-day matters. But our request to them is also very infrequent.

SHRI M. ANANDAM: You say Teja chartered the ships at the rate of 16 shillings, as was shown in the papers, but he actually paid only 15 shillings. How did it come to light?

SHRI SRIVASTAVA: This came to light after the Government took over charge of the Company. We went to certain parties and also came across certain Telex messages showing that the actual rate in a particular case was not 15 shillings but 16 shillings. The charterer also confirmed it. Having been confronted with our straight questions, they could not deny it.

SHRI M. ANANDAM: How much money has gone out in this way?

SHRI SRIVASTAVA: About 6 lacs, but we have taken legal action to recover the whole amount. In fact, all the shares of Dr. Teja have been attached under High Court Orders and they will be sold by auction.

SHRI M. ANANDAM: You said that the management of the Shipping Corporation has got one or two Government directors nominated on the Board, then where is the need of the C. & A. G. to go into the audit when the Govt. nominees review the commercial operations?

SHRI DUTTA: Shipping Corporation is a Government company, and it is under the audit of C. & A. G.

SHRI M. ANANDAM: You have said in your memorandum that it is obviously appropriate that the utilization of such funds is appraised by an independent authority like the C. & A. G.' This is in respect to statutory Corporations.

SHRI SRIVASTAVA: That is not the Ministry's Memorandum, that is the Shipping Corporation Memorandum.

SHRI S. M. SIDDAYYA: What is the total of loan and subsidies given so far?

SHRI DUTTA: I cannot give this figure now; I can send it to your Secretariat, if you like.

SHRI S. M. SIDDAYYA: You are not in favour of the audit of these companies which receive subsidies by the C. & A. G. on the ground that it is extremely cumbersome.

SHRI DUTTA: We look after our things quite well through the Government Directors. We think that an audit by C. & A. G. of private sector Companies is not necessary. The subsidy is given only to the Hindustan Shipyard which again is a Government company and under the C. & A. G.'s audit. The subsidy is given because it has to compete with the international price.

श्री न० प्र० यादव : बेयरमेन साहब मैं आप के द्वारा यह कहना चाहता हूँ कि जो इन्होंने अंग्रेजी में अपने विचार व्यक्त किये हैं वह हिन्दी में बता दें।

सभापति महोदय : नहीं, नहीं, वह नहीं हो सकता। यह लड़ाई वहाँ पार्लियामेंट में लड़े तो ठीक होगा। यहाँ क्यों इस सवाल को उठा रहे हैं? यहाँ तो वक्त जाया होगा। यहाँ हर एक चीज हिन्दी में कैसे हो सकती है? आप को सवाल हिन्दी में पूछना हो तो पूछिये। लेकिन जो कोई भी चीज अंग्रेजी में बोली जाय उस का हिन्दी में तरजुमा किया जाय, यह तरजुमा करने का काम भी उस को करना पड़े यह नहीं हो सकता। इसमें दुगुना समय लगेगा....

श्री न० प्र० यादव : उस की व्यवस्था होनी चाहिये।

सभापति महोदय : व्यवस्था का सवाल हम आपस में बैठकर देखेंगे।

SHRI M. ANANDAM: What is your opinion about C. & A. G.'s auditing the accounts of those contractors where Government have entered into negotiated contracts worth a crore of rupees or more?

SHRI DUTTA: Well, I have lot of misgivings about this proposal. I have been dealing with all the major ports also and so far as my Ministry is concerned, I do not know, if any such contract has been given without calling for tenders. Other Ministries, of course, may have done that. It may well happen that contractors do not maintain separate accounts of work which have been entered into between themselves and Government on the basis of negotiations and without calling tenders and in such case they will without doubt object to their total accounts being subjected to scrutiny of any outside authority like the C. & A. G. If contractors can manage to keep the accounts separately, such audit is possible I feel, that personally, that it is an impracticable suggestion.

SHRI S. S. KOTHARI: Although it does not concern your Ministry, we would like to have your ideas on certain points and know your views. We have a proposal before us that where 25 per cent or more of the share holding in a concern belongs to Government, C. & A. G. be asked to have some jurisdiction in regard to test or supplementary audit. And the second proposal is whether we should give the C. & A. G. powers of supplementary or test audit for the financial institutions like the L.I.C., State Bank of India etc. in addition to the statutory audits. What would be your views on these?

SHRI DUTTA: For financial institutions, I do not know what is the present position.

SHRI S. S. KOTHARI: They are not within the purview of the C. & A. G.

SHRI DUTTA: According to clause 14, where any body or authority is

entirely financed by grants or loans from the Consolidated Fund of India or of any State or of any Union territory the C. & A. G. shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all expenditure of that body or authority.

SHRI S. S. KOTHARI: These are the proposals in the Bill.

SHRI DUTTA: Honestly speaking, I do not think, I can offer my comments. But one thing, I feel, is that these are really chartered accountants' jobs and C. & A. G. has very few chartered accountants. He can do propriety audit. That is for the Parliament to decide. One has to look to the administrative convenience also. The whole object of audit is a post-mortem; it should not be a cause of hampering the initiative of business. Frankly speaking, I cannot give any 'yes' or 'no' so authoritatively. Chartered Accountants do not find it worthwhile to enter the service of C. & A. G. Secondly, their training is in looking into expenditure such as salary, dearness allowance, contingency, etc. How far CAG audit in respect of other things would be desirable is a question on which you should obtain the views of financial institutions because hundreds of crores of rupees are involved.

We have in our memorandum referred to the 25 per cent cases. According to the company law as it stands, the question does not really arise because Government is like any other shareholder. The majority of the shareholders in their annual general meeting elect the auditor. If 25 per cent is more or less the controlling interest, it is really a tricky problem but there are not many companies so far as the Central Government are concerned. BIC is one company; then in Oil India they have got 50 : 50.

SHRI S. S. KOTHARI: In Jessups they have got 50 per cent; deliberately they have not taken 51 per cent.

SHRI DUTTA: They want to keep it away from the regimentation of the Governmental company. If you want to include 25 per cent, you have to change the company law.

SHRI M. ANANDAM: Is it worthwhile?

SHRI DUTTA: The company law people would be able to advise better. Government has certain statutory powers in respect of all companies and all this tends to get mixed up when Government is also shareholder. It is for Parliament to consider whether it is worthwhile to change the company law to bring such companies into C. & A. G. audit ambit.

SHRI S. S. KOTHARI: Today the CAG has discretionary power and if something comes to his notice he has the power to do a probe where necessary; he can do so once in 3 or 5 years.

SHRI DUTTA: I would support it whole-heartedly provided you can weave it within the law. You will need some amendment. That is not a bad idea. He may exercise that power; he may not exercise that power. It will be a check on the management.

SHRIMATI JYOTSNA CHANDA: The other day we found that two ships were bought by us to carry oil but they could not get into any of our ports. What will you do with them?

SHRI SRIVASTAVA: We are earning plenty of foreign exchange. We got these vessels specifically for transporting crude oil to Madras refinery. While the harbour is getting ready we put them on international trade and earn a lot of foreign exchange. We have earned over Rs. 4 crores from one tanker. The capital is well employed.

SHRI DUTTA: Purchasing a ship takes time. We know that on a particular date we shall need a ship or more ships of such and such category but on that particular date nobody may be willing to oblige us and we may

not get the ship on that particular date. It will take sometime for our harbours to get ready to receive such bulk carriers. If the credit money is there and if a suitable ship comes, we grab at the opportunity. As soon as our harbour is ready, these ships will be withdrawn from foreign charters for our use.

SHRI S. S. KOTHARI: Often one hears that Calcutta port and Calcutta harbour are neglected. What have you to say about it

SHRI DUTTA: Nature is doing its havoc; it has been going on for 200 or 300 years. Farraka barrage is being constructed. But work progress according to workmen's fancy. Rs. 160 crores are meant for this purpose. The cost of Haldia is Rs. 50 crores. It is a deep water port to Calcutta because even after Farraka is completed and the river is flushed and silting becomes less, you cannot take a big ship 126 miles up into Calcutta port proper: that is why Haldia is developed. More than Rs. 200 crores is invested in improvement schemes. Where is the question of neglect? Trouble is elsewhere. Farraka barrage was going on very well and the workmen said that they wanted permanent employment after the project was constructed. They have wasted the entire working season of nearly the whole of last year. Haldia is going on according to schedule.

SHRI KALYAN ROY: You mentioned about the Farraka barrage. Have you not seen in the papers that another barrage has been constructed or permitted in U. P. which will completely take away the waters for the Farraka barrage?

SHRI DUTTA: I have seen that report and that is being gone into. How many cusecs of water should be allowed to flow through the Farraka barrage during the crucial months of March, April and May, that is the question. There is no difficulty during the rest of the time. This question has been

raised and according to some calculations they want 40-41,000 cusecs and according to another calculation it is about 20,000 cusecs. The present study shows that 54-55,000 flows through at Farraka. We have to give something to Pakistan; that has not been settled. They wanted 3 or 4,000 and they raised their demand to 50,000 which was something fantastic. But we are not handling it; the Irrigation and Power Ministry are handling it and they are confident that there will be sufficient water inspite of the irrigation projects proposed. There are several projects right from Hardwar downward. This is within the knowledge of the Central Government.

SHRI KALYAN ROY: Are you in a position to say that there has been no negligence whatsoever regarding the Calcutta port in the last 20 years?

SHRI DUTTA: How can I say about 20 years who has done or not done what and in what respect? There are so many things in a port.

MR. CHAIRMAN: Thank you, gentlemen.

SHRI S. S. KOTHARI: Mr. Chairman, when are we calling the Food Corporation people for evidence?

MR. CHAIRMAN: On 17th July, at 3 p.m. at Delhi.

(The witnesses then withdrew).

(The Committee then adjourned till 15.00 hours).

(The Committee re-assembled after lunch at 15. hours).

III. THE RESERVE BANK OF INDIA, BOMBAY

Spokesmen:

- (i) Dr. R. K. Hazari, Deputy Governor
- (ii) Shri R. K. Seshadri, Executive Director

(The witnesses were called in and they took their seats).

MR. CHAIRMAN: We welcome you to this meeting and before we proceed with our business, formally I have to tell you that the evidence given here is confidential. According to our directions, it shall however be explained to the witnesses that even though they might desire their evidence to be treated as confidential, that evidence is liable to be made available to Members of Parliament. So, there is nothing confidential. Still if you feel that certain things should not go on record, you can tell us. On behalf of your institution a Memorandum has been given to us. Now if you would like to clarify certain things or add something to that, you are welcome to do so, so that other Members may ask certain questions on the basis of your observations as well as the Memorandum that is before us.

DR. R. K. HAZARI: Thank you Mr. Chairman. At the outset I should convey the Governor's regards to the Chairman and the Committee. He would have liked very much to come and he still looks forward to the opportunity of meeting the Committee if that suits the Committee on a suitable occasion. But since he took over only yesterday, he thought it may be a little difficult for him to come here today and to testify before the Committee. In any case, the institution continues in spite of the change of personnel. I am myself quite new to the Bank, but there is no newness so far as the institution is concerned. My colleague Mr. Seshadri has been with the Bank for quite sometime and knows all the details that one needs and with your permission, Sir, on any points of detail. I would be seeking his assistance to explain any matters, which will be beyond my limited knowledge.

As regards the points which really matters in the memorandum, with your permission, Sir, I may start by pointing out that in our Act itself the Government has the power to ask the Comptroller and Auditor-General to carry out some kind of an emergency or special audit when it so wishes. So, it is not as if the Comptroller and

Auditor-General is entirely cut out so far as the Reserve Bank is concerned. Apart from that provision, which has fortunately not been exercised so far because no occasion for its exercise has fortunately arisen, actually the Auditor-General does carry out a test audit of what might be called agency accounts, i.e. the accounts which are handled by our agents for doing government business. The Reserve Bank is not a commercial or an industrial undertaking. It is, therefore, not on par with various other undertakings in respect of which the authority and regulation of the Comptroller and Auditor-General is in many ways meaningful. The Reserve Bank, as I am sure all members of the Committee are aware, is concerned with three major functions; (i) the management of money and credit; (2) control and supervision of the banking system and (3) administration of exchange control.

So far as management of money and credit are concerned, I do not think it has been suggested that CAG should have the powers of audit in any case. So I will not labour on that point at all. The control and supervision of the banking system is, I think, a matter which, with your permission Sir, I may explain in a little detail. Both under the Reserve Bank Act and under the Banking Regulation Act and, if I may add, under the State Bank of India Act and the latest Nationalisation Act together with the normal conventions of Central banking, the Reserve Bank exercises considerable control and supervision over the commercial banks. In addition to the, one might say, traditional role of Central banking in relation to commercial banks the Reserve Bank has been vested under the Law with powers of inspection of the banks, the power to take corrective action or to advise Government to take corrective action, the power to issue directives on matters of credit policy or other matters which might have a bearing on banking or the public interest generally. It can, therefore, be stated, and I would like to assert that point in fact, that insofar as

the banking system is concerned, the Reserve Bank exercises powers which in many ways are comparable with the powers of the Auditor-General in relation to most governmental activities. In fact, the Reserve Bank's powers are much wider if one comes to think of it because in relation to the banking, we not only look into whether, say, something has happened according to authorisation or according to sanction, but we also look into the propriety and into the impact of those activities or those policies or certain actions on the banking system and on the economy in general. Bank nationalisation has not, in any sense of the term diluted the powers of supervision of the Reserve Bank over the banks. In fact, under the Nationalisation Act Government is supposed to do a number of things in relation to these 14 banks in consultation with the Reserve Bank. Further more, if one gets away from law, as such, in terms of what we are now having in hand in terms of our future programme, we are considerably strengthening the coverage as well as the purpose, if I may say so, of our inspection system. The experience we have had of inspection of the banks has shown that over the years that it has been in operation, it has drastically reduced the frequency of failures and runs in the banking system. More positively, I would say there has also been an improvement in the methods of operation of the banks and this is reflected, if one wants any quantitative indication, in the increase in the number of licensed banks over the last few years. Many banks have been closed down, of course, in the past because we either felt that the units were not viable or that their methods of operation were not consistent with the interests of the depositors and the economy generally. In addition to that, what inspection has achieved is not merely, I think, a greater degree of public confidence in the banking system but also a substantial improvement in the methods of operation of the banks. There is still considerable scope for improvement and it is to that that we are

applying our minds at the moment and we hope to improve it substantially in the near future and the improvement that we have in mind is not merely in terms of coverage or greater frequency of inspection, but also to introduce an element of modern methods of assessment of management and things like that.

So far as administration of exchange control is concerned, insofar as exchange disbursement relates to import of physical commodities licences are issued by import control authorities of one sort or the other and insofar as invisibles are concerned, releases are made against authorisation by proper authority. Now in many ways, of course, exchange control does not mean release of funds belonging technically to the Exchequer. But I would not labour on that point because whether the funds belong to the Exchequer or they belong to the country generally, that is only a technical difference. What we do in the administration of existing control is not merely that we release against authorisations given by the designated authorities, but what we really do is in fact to check on the operations of what we call authorised dealers, who undertake the deals in foreign exchange. These are the banks which have licences for dealing in foreign exchange. So, it is not as if we actually do that actual transactions with the public in foreign exchange. Actual transactions with the public are done by the banks which have the licences for this. We are the regulating and supervising authority for that purpose.

You would appreciate Mr. Chairman, that in all these three areas, we have regulatory and supervisory functions and I would also submit that these are the functions which would not be amenable to audit by C. & A. G. Since this is what we really do most of the time, it would be, in our opinion, quite superfluous and unnecessary and perhaps involving duplication if such institutions were to

be put under the audit discipline of C. & A. G.

Now, it might very well be asked, well, even if there is some duplication involved, it might be in the public interest. Now there I submit first of all that Reserve Bank is the central banking authority of the country and in fact, the Reserve Bank is much more than the normal banking authority because it carries out many functions and many more allied functions which most central banking authorities in the world do not have. The reasons for giving the Reserve Bank many more functions are in a different context but what it implies is that Parliament and the public and the Government, therefore, have had a degree of confidence in the Reserve Bank of which we have reasons to be proud. We would not like to be in a position, where the Reserve Bank becomes, by subject to C. & A. G.'s audit, a mere department of the Government. The position in law and the day-to-day position in fact also is that in many things involving economic affairs, banking and various associated things, the Government acts in very close consultation with the Reserve Bank. Therefore, it is something of a nature which is substantially different from, let us say, inter-departmental cooperation or coordination.

In the light of those things, it is our feeling that it would not serve the public interest either if we are to be reduced to a position in which there would be practically no difference from a department. In any case, if I may say so, the Reserve Bank in many ways is at par with and has functions much wider than those of the C. & A. G. any with all due respect. I would submit that since the C. & A. G. himself is not subject to audit, it would be very odd if an authority which has much wider responsibility at all time and from day-to-day, might be the subject to the audit discipline of another authority.

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So far as the public accountability in general of the Reserve Bank is concerned, as you would be very much aware, Sir, questions relating to Reserve Bank policies and the banking policies in general or matters which in one way or the other concern the Reserve Bank are answered by the Minister of Finance in Parliament. We have, we think, rightly taken the view that if our accountability goes further than this and extends to matters of detail, to matters even concerning may be individual transactions, then it would logically follow that the Finance Ministry would have detailed day-to-day responsibilities for the working of the Reserve Bank. Also since the C. & A. G. is the standing sentry, if I may say so, of Parliament and he is the guardian on behalf of the Parliament, and therefore, people of various interests, various transactions—if the C. & A. G. were to audit the Reserve Bank, he would, subject to correction, Sir, perhaps be duty-bound to report on various transactions—may be even in regard to secret reserves, the position in regard to individual banks to Parliament. With all due respect to parliamentary tradition and the confidence the people have in Parliament, we feel that a disclosure of this nature would not be in the interest of banking. We have been accountable, we are accountable and we will remain accountable, but that would be all things taken as a whole rather than on individual items or on items regarding the individual disclosure of which we would have very strong reservations.

With your permission, Sir, I may go on to the question of associated institutions like the Industrial Development Bank, Agricultural Refinance Corporation, and if I may add, the nationalised banks. There it is our view that the C. & A. G. should certainly have powers in the law providing for Government asking the C. & A. G. to have an emergency or special audit with reserve power, that is I think, an essential safeguard. But otherwise we would feel that the arrangement

in regard to their audit should continue as it is now.

In so far as it is to be strengthened, in so far as the internal working of the banking institutions is to be improved and all that, I would never claim that there is no scope for improvement, there is substantial scope for improvement. This would have to be done by strengthening of their internal control, internal inspection, their internal audit, all under Reserve Bank's supervision, and this process has been initiated recently. In that context, I may also submit that rightly or wrongly there is a feeling that with CAG audit people working in various public organisations become more cautious. In the case of financial institutions, as a matter of public policy, we have been moving away from security orientation to purpose orientation; we expect them to become more enterprising. If there is a feeling that CAG's audit leads to more caution than to more enterprise, we submit that we would prefer to err on the side of enterprise without in any manner sacrificing financial prudence which every financial institution is expected to exercise.

SHRI S. S. KOTHARI: We have been impressed by your ideas in this matter. Firstly I should like to take up the foreign exchange transactions. There is a feeling that the Reserve Bank or other departments have not been able to exercise that degree of control as was expected of them and here is over-invoicing and under-invoicing. In certain transactions where correlation between imports and exports had been made the export money was not received though imports were permitted. There appears to be a leakage of foreign exchange. It is felt that these should be subject to review, not of a routine nature, but as circumstances may demand by a supplementary audit by the CAG or from time to time once in two or three years at his discretion. What is your reaction?

SHRI R. K. SESHADRI: The Finance Ministry has gone into this matter in

the past arising out of a recommendation by the PAC, specifically on over-invoicing and under-invoicing. The PAC also took note of the minute of dissent in the report of the Sarkar Committee on steel transactions where specific suggestions were made that foreign exchange transactions be subject to some audit. The question is whether it will not be better to have some enforcement control by way of Government laying down the conditions, detailed procedure, etc. What was envisaged in that report was that the Government would consult the CAG and find out if precise conditions could be laid down subject to which foreign exchange could be released. If detailed procedure could be prescribed and if there could also be some enforcement machinery to make sure that the conditions are fulfilled, it would be helpful. Even now the Government have got the authority to say that these are the conditions subject to which foreign exchange releases are made for physical imports of goods or invisibles and every transaction is subject to some kind of a check within the office of the Chief Controller of Imports and Exports. There is a hierarchy and sanctions given by a lower authority are reviewed in the usual course by the higher authority. There is a directorate of enforcement which has got statutory responsibilities. As regards incentive licensing and replenishment licensing there is an audit cell in the Finance Ministry which goes into it and there are also three returns prescribed to see how foreign exchange is earned and we try to match those three returns. We have recently installed a computer in Trombay where these returns are processed and we hope that the time-lag in finding out how the actual expenditure compares with the initial release will be considerably reduced and if it is necessary we can think of other administrative type of controls. Perhaps the answer would be to elaborate the conditions and to enlarge the powers of the Director of Enforcement. I am sure that in due course the audit cell in the Ministry

of Finance itself will be able to take on more responsibility. The real point is whether a regular check throughout the year by the CAG will be useful or alternatively a check is intended once in one or two or three years. What is the clue by which he takes up any particular transaction? These things come to light generally after they have happened. In so far as there is leakage or smuggling, what is to be done. Smuggling is a much wider problem which the customs and the central excise people are dealing with and if any administrative organisation outside those authorities is to be entrusted with any responsibility, it requires police powers and there is to be constant vigilance. In other words this is a type of transaction which is not amenable to audit.

DR. HAZARI: If I may add, there are several things involved—policy area, plain police investigation and detection area and also problems relating to pure and simple statistical tally. On the statistical tally it is true that because of a large number of returns, it was not always easy to tally things quickly with former manual methods of handling the returns. We are trying to remedy this now. About the other areas, granting that there has been some deficiency in the administration of exchange control, we have some doubts whether the deficiency would be corrected by the CAG coming into the picture. That is all that we would say.

SHRI S. S. KOTHARI: With regard to the CAG, you have said that there is a reserve power in the hands of the Central Government to order CAG's inspection wherever it is considered necessary particularly in the case of associated banking institutions and probably that power may also be given in respect of the nationalised banks. What we had in mind is that instead of the Central Government having a power which in the past it has never invoked—that is the information we have—if we give the discretionary power to the Comptroller and Auditor-General who is a highly

responsible person and normally has had years and years of experience in the Ministries themselves, and then he is elevated to this high office, and if he has the power that where he considers necessary at his discretion under specified circumstances where it may be warranted, he may order a periodical check once in three years or five years, test-checking the transactions, without giving it a routine character, probably that would be more practicable and more effective. Because, as I said earlier, the reserve powers in the hands of the Central Government have never been exercised.

DR. HAZARI: I hope nothing that I said was meant to be any reflection on the CAG as an individual. It is a question of the institution rather than of individual. We have the highest respect for the CAG's office and they are all respected for their competence. The question is that, as between one institution and another, who is to do what, and for what purpose. The suggestion is that the CAG should have *suo motu* the powers to audit on his own without waiting for reference from the Central Government on the ground that the Central Government had these powers in some cases, but did not exercise them. If I may submit, this is what appears to be a very fundamental question of policy and principle. There are always certain special emergency powers vested in some authority or the other for a basic public purpose. If they have not been invoked, it should be treated as a good sign on the whole, and we do hope that the ground for invoking them would not arise in future.

As for the CAG's exercising powers *suo motu* this would arise where either the CAG were not to be involved at all anywhere along the line, or where the CAG, without reference to the Government, for a wider social responsibility or direct responsibility to Parliament without passing through

Government, feels that he must come in. So far as the first operation is concerned, the CAG is involved indirectly in a sense, because the auditors in all cases are appointed either in consultation with the CAG or from lists of panels which have been approved by the CAG. So, it is not as if the CAG is entirely out of the picture. As for the CAG, as a matter of principle, taking up things on his own, we would feel that in so far as the associated financial institutions and banks are concerned, the power in a much more comprehensive manner resides with the Reserve Bank. In relation to the Reserve Bank itself, one would get back to the same logical point that if the CAG has a certain position and

powers, so has the Reserve Bank.

SHRI S. S. KOTHARI: In the case of associated institutions?

DR. HAZARI: In the case of the associated institutions and banks, it is the Reserve Bank which almost in every sense of the term has *suo motu* power, not merely for audit but for a whole wide range of things, including organisation, policy and personnel.

SHRI S. S. KOTHARI: You have yourself brought me to the third and fourth points. First, about the statutory auditors, the feeling we have is that the statutory auditors have been performing their job very well within the limitations imposed on them by the statutes and in respect of the duties that have been cast upon them by the Companies Act or the relevant statutes governing the various corporations. But according to those Acts and the conventions, statutory auditors are not expected to go into the propriety aspect of the transactions.

I will give you an example with which my colleagues would be bored, but still, I will have to give it. An institution investing money in certain shares complies with all the formalities and the rules and regulations. Suppose the investment is made in some company which does not enjoy a very

good reputation, the statutory auditor would on the basis of the rules and regulations pass the transaction. The CAG may go into propriety aspect and say that this new institution should not have invested in such and such a company or this financial institution should not give such and such a loan to the company which, according to the market reports, does not enjoy a very good reputation. That aspect of it can only be looked into by the CAG while the statutory auditors, probably because it is not part of their job or it is not their duty, may not enquire into it. So, a supplementary test audit, not on a routine basis but as a test check as he considers necessary, would probably be advisable.

DR. HAZARI: I am sorry I would beg to differ from that point of view. Because in so far as audit relates to checking things, whether they have been done in terms of sanction or a particular authority, the CAG's audit would not differ substantially from the audit by the statutory auditors. In so far as propriety is concerned, there also, if I am correctly informed, the Institute of Chartered Accountants has also taken a line—which may not be a foolproof line or comprehensive—but they have also taken a line that the auditors should not merely tally the vouchers and books. We hope that as time passes, a broader view would be taken on audit, but audit as audit would always have limitations. It cannot for instance ever come to the conclusion whether investment made in a backward area was good with certain concessions given, and that an investment made in an advanced area was on all fours with it. Audit cannot really look into it.

As far as the investments or advances of banks or for associated financial institutions are concerned, our inspector does look into it. There have been some limitations in our inspection. There is no doubt about it, because inspection has also limitations when one comes to think of it.

There is no substitute finally for what is done within an organisation. No external agency can beyond a point enforce the kind of policy or the kind of discipline that one would like to take.

There also, I would submit that the Reserve Bank's inspection, together with the proposals that we already have in hand for strengthening the internal inspection and audit of the banks and the financial institutions, should be able to take care of that part of the problem which can be tackled by audit.

DR. HAZARI: The policy problems, the organisational problems, the personnel problems would still remain. Those would be the things really which would determine the performance of the organisation; which would determine the propriety of behaviour at various levels.

SHRI S. S. KOTHARI: With regard to inspection, I am coming almost to the end of my points. There have been cases in the past where, despite Reserve Bank's inspection, bank failures have occurred and even now we have a feeling that in the case of certain banks if the advances or loans are very carefully scrutinised, certain percentage or a proportion of those loans and advances may prove to be unrealisable even in the case of the big five banks. So our feeling is that the Reserve Bank's inspection is not fool-proof. CAG's scope extends to nationalised banks also. Our feeling is that it will add to security probably. Secondly, with regard to the security aspect, which you have emphasised, there is no reason why the CAG could not evolve a procedure whereby inspection reports in respect of banks are not made public. They are discussed in confidence in the Reserve Bank itself and probably the Speaker of the Lok Sabha and the Chairman of the Rajya Sabha could appoint a sort of Committee which can go into those matters and their deliberations could be kept secret. New conventions could be established in this re-

gard, because we appreciate the importance of the matter. If CAG's inspection is extended even in routine matters, I think it would improve the position.

DR. HAZARI: Sir, it is true that some bank failures have occurred even during the period that the Reserve Bank's inspections have been going on. But, if I may say so, if these are compared with the bank failures in the Twenties and the Thirties or somewhat earlier, it will be seen that this is, on the whole, an unenviable record.

SHRI S. S. KOTHARI: We won't like to countenance a single failure.

DR. HAZARI: We entirely agree with you. But these do happen. It has substantially improved since then. But, if I may say so, as you are kind enough to concede, Sir, even what could be contemplated in terms of CAG's powers would be something different from the routine CAG audit. If I am permitted to say so, having been in the line for some time, we could also be permitted sometimes to enlarge the scope and to improve our methods of inspection so that we may be able to achieve some purpose. There are some inadequacies even now. There is no doubt about it. There are transactions in the banks about which we are not happy. There have been bad debts in banks. There is no doubt about it. But I would like to say, with your permission, that in any business there has to be some bad debt. The question is whether in making these advances, it was only an error of judgment or there was anything like *mala fide* or anything that could be described as 'inadequacies which could have been avoided'.

MR. CHAIRMAN: Or Reserve Bank not using its powers the way it should have used.

DR. HAZARI: If I may answer that question, Sir. As you might remember a little earlier I said that beyond

point no external agency can really bring about a very substantial change. And since my own personal views have not been in doubt on that, I may say that whatever substantial changes, that could have been contemplated there, have to some extent been brought about by the nationalisation of the bigger banks. As their management is strengthened, it should be possible to bring about substantial improvements that all of us have in mind. But one cannot do several things merely by sitting outside. The Reserve Bank certainly has tremendous powers of regulation and of issuing directives but we have no illusions about the fact that while we can issue directives, give advice or send letters, which have the effect of orders in effect, but if there are people on the spot who are either handicapped or unwilling to go along with them not only in letter but in spirit also, then it is like, if I may say so, laws passed or orders issued anywhere else. Therefore, I would say, in any case, the Reserve Bank's powers of Reserve Bank's inspections would never be a substitute (and so would CAG's powers or inspections) to proper and good administration.

SHRI S. S. KOTHARI: You have not answered my point.

DR. HAZARI: Secrecy is, as you were kind enough to concede, a very important part of banking, not so much from any other point of view, as from the point of view of affecting credit of the banks or avoiding runs on the banks, and so on. I do not think with leading banks now under public ownership, that kind of fear would arise. Secrecy is important from the viewpoint of the individual constituent. Very close contact is supposed to be there between the bank and the individual as also between the bank and the financial institutions. For another authority to come in, and that authority being very vital and very constitutional, correctly being the principal agent of Parliament in that sphere, is something that brings in an

element which is outside the banking world, which also has no responsibility. While it has the authority to audit, it has no responsibility for the proper working and development of the banking system. Therefore, even there, I would say that from the secrecy viewpoint also, whatever the safeguard, might be, we would very much prefer that it remains with the Reserve Bank.

SHRI S. S. KOTHARI: What are your views about this Patel affair in the Central Bank. How is it that it did not come to the notice of the Reserve Bank or is it that Reserve Bank inspections do not extend outside India?

DR. HAZARI: This is a statement of views. I will answer in two parts. One is, for some years the Reserve Bank has not inspected Indian branches in London, and it has been indicated by the Minister. Now on the second part, we do not, as yet, have all the facts in the matter. The investigations are going on at the fastest possible pace. In any case as you might recollect from the reports that have appeared, nearly all the transactions, which have made this notorious example, have taken place outside the bank's records. Now we are trying to establish from the bank records, whether there is any connection and if so, how far. But it would have been very difficult, even if we had carried out an inspection of the bank. It is possible, we would have avoided it if we had inspected and we would have advised the Central Bank to take corrective measures earlier. The fact of the matter is that the transactions have taken place largely outside the bank records and if an inspection had been carried out, that would have been on the basis of the bank's records. With your permission, I may state that as yet we do not have all the facts in hand and it is only when all the facts are in our hands that we would be able to give a comprehensive account and what we might then, consider an absolute correct picture.

SHRI S. S. KOTHARI: We hope that the Reserve Bank will draw a lesson out of this affair and try to lay down and follow certain guidelines which would ensure that this kind of thing does not occur in future, because one of the witnesses earlier submitted that they have to depend on the honesty of the Agent or the Manager very much.

DR. HAZARI: That would not be entirely correct. Where the bank is following proper and prudent procedure, there would be credit reports, there would be record of powers of attorney, and there would be consistent checkings. It is not as if an Agent is fully empowered to do whatever he wants. In any case bills are short maturities and they would come to light some time or the other. I may add that in the big banks before nationalisation, there was a practice of keeping the same man on the same job for very long periods. We had in the past brought this, what we considered rather an unhealthy practice, to the notice of the banks, but in many cases the banks felt that the same person remaining at the same job was good for business.

SHRI S. S. KOTHARI: It has come to notice that some corruption has come into the nationalised banks. I hope this is not correct. But if certain cases come to the notice of the Reserve Bank, prompt action would set the matters right.

DR. HAZARI: Several complaints have been received by us and many questions have been raised in Parliament also. Each time we have looked into the complaints. There, if I may say so, I think, people are much more wide awake about the working of the nationalised banks, as they should be. Therefore, whenever anything comes up which we regard inconsistent with the working of the nationalised banks, we would take notice or we would ask their representatives to take notice. This awareness is

something about which we are absolutely happy.

From the enquiries that we have made and as you might recollect from the replies that might have been given by the Minister in Parliament, or otherwise to M.P.s, there have been some cases—that is true. But we would not regard it as something to be blown out of proportion.

We know very well, as in any other category of bank lending, there would be some bad loans, but from the experience of two-three years and more particularly for the last one year, our assessment is that the bad debts of the new categories of advances would be much smaller than the cases earlier.

SHRI KALYAN ROY: You have made a mention in your memorandum about the complete confidence and the secrecy. You have correctly stated that public confidence is vital for the success of our banks, but public confidence can be strengthened by showing the public that there are checks to find out the faults of the Reserve Bank. Then you have stated that these objectives would be frustrated if through the C & AG's audit of the banking operations of the Reserve Bank public attention were to be drawn to such defects and irregularities as they come to notice. Public confidence can be reposed on banks only when the public knows about their working, but contrary to this, you have stated that it should be done secretly, public should not know all these things. How do you reconcile this?

DR. HAZARI: This is a point which could bear some explanation. It is not as if having found a fault we would do nothing about it. We do take action. It is true that in the past, it has been our difficulty to take action for a variety of reasons, but there are always limitations in the sense of leading up evidence to arrive at certain points, specially in matters in-

volving credit. It is quite often very difficult to lead enough and strong evidence to get a conviction apart from the time taken. There are various other ways of getting the desired results. It is to that end that one hopes for improvement and one hopes that a proper settlement should be reached. This is largely a question of the management system.

In so far as the individual persons are concerned, the best kind of action that is possible is the preventive action rather than the penalty action. The Reserve Bank is concerned, I think, in our opinion rightly, there might be some difference of opinion, that we have applied the maximum possible attention to preventive action. Where, however, a thing has occurred, we have tried to see and we will try even more in future that the penalty action is appropriate and timely. Now the point is, whether it should be done secretly or in full knowledge. There are certain matters in which secrecy is perhaps desirable, because for one thing many other names can be involved who may be perfectly innocent and they may not like their names to be known.

SHRI KALYAN ROY: Secrecy is necessary for inspection and investigation, but when the fault is found out, it should be made public.

DR. HAZARI: If there is cause for criminal action that would certainly be published. If it is found that criminal action is either not called for or that it will not be sustained, it is quite possible that if we or the bank management let it out, there are certain limitations in this; one's money is involved. This is a difficult point; I entirely agree; but there again if I may say so, CAG would be on par, it is not that one would be able to do better than the other.

SHRI M. ANANDAM: In regard to foreign exchange control you said that the Finance Ministry exercised

control and there was the directorate of enforcement and there was no need for the CAG to conduct an audit. The Sarkar Committee which examined the steel transactions found certain shortfalls. I do not know what has happened subsequently. Unless there is an audit by some extraneous authority in case, like this it may not be possible for anyone to bring this transaction into the limelight. Even in the interest of the Reserve Bank the CAG should at least test check such cases and report on the correctness or otherwise of those transactions.

SHRI SESHADRI: There are several types of transactions involved. Firstly there is the policy judgment involved at the Governmental or administrative level whether a certain incentive licensing should be given and if so on what conditions and if some export is likely by allowing some imports, etc. In the exercise of that judgment there is a possibility of human error and I wonder whether audit can overcome that limitation. In other types of cases, audit may need police of vigilance powers so that it may be effective. What we have to do is to see whether the CAG would be in a better position to bring about various improvements by audit or whether administrative organisations which are already entrusted with this responsibility can be given more manpower and worked better. For example the inspection wing in the office of the Chief controller of exports and imports has the main job of finding out whether the licences have been properly issued and implemented and whether anything has gone wrong; the inspection machinery can be strengthened. Over the last decade these things have steadily improved and they can be improved further. We think that this is a problem which is essentially to be tackled by the administration.

SHRI M. ANANDAM: The purpose of audit is not always to detect fraud;

It is to certify the correctness of the accounts. Even for certification of what is correct it may be necessary that certain independent authority, not under the Reserve Bank or under the enforcement branch of the Finance Ministry should conduct the audit and certify that everything is all right.

SHRI SESHADRI: In foreign exchange transactions Government is not spending money; it is treated as a resource and just as other scarce resources are allocated, these are allotted and the rupee counterpart is received. The budget is very rarely affected by these transactions.

SHRI M. ANANDAM: Public sector undertakings also do not directly affect the budget; yet they are subject to CAG audit.

Coming to the second point, one of the important functions of the Reserve Bank is to lay down and implement proper policies in the credit fields. There is a lot of deficit financing and it is not subject to audit; that is what is stated in the note. Is it not necessary? If in a particular Five Year Plan there is provision for Rs. 500 or 600 crores of deficit financing and if the Reserve Bank exceeds it by Rs. 500 crores, the reason why it has happened like that should be enquired into by an independent authority like the CAG.

DR. HAZARI: It is a matter for Parliament to decide rather than for the Reserve Bank to take a view. Deficit financing arises out of Government policies as a result of expenditure that had been appropriated by Parliament. We are there as treasurers, if you like, to the Government; that is one of our basic functions. With your permission, Mr. Chairman, I would leave it unanswered.

SHRI M. ANANDAM: A lot of money is given to various banks as credit to co-operative societies to be given for rural credit. Is there any agency of the Reserve Bank which

sees whether this money has been spent properly for the purpose for which it was given and whether the money is realised by rural banks and co-operative societies from time to time from the various people to whom it had been lent?

DR. HAZARI: So far as rural credit is concerned, we have a large department of the Reserve Bank, in fact, one of the first non-conventional departments in the Reserve Bank, which was set up along with the starting of the bank. Our agricultural credit department is concerned with the Reserve Bank's lending to the State apex co-operative banks. So far as what we call the inspection of the co-operative structure is concerned, that comes under the discipline of the State Registrars of Co-operative Societies. So far as the determination of credit limits of the apex banks is concerned, our agricultural credit department does, while fixing the credit limits but not fixing the credit limits on the co-operative banks or district central banks, take a hand in finding out whether these are run properly, what their overdue position is and how far their methods of operation can in some manner or other be improved. If their overdue position is bad, their further operating capacity is reduced, but here again, if I may say so, a question of policy arises. It could be said, for instance, that in a particular State, where the co-operative overdues are 40 per cent, there should be no more co-operating lending. How can that be made consistent with public policy? We cannot take a stand in the Reserve Bank which would be quite contrary to what the public policy at the time is. While I have been I think emphasising the autonomy of the Reserve Bank, I hope we would be never taken to mean that autonomy would imply that we would run contrary to public policy.

There is also the problem that when the loans are made all the usual problems of the co-operative movement

come in. Many of them are non-viable units, and subject to the vagaries of the monsoon and agriculture; there are also various other problems which do come in. So far as the Reserve Bank's lending to commercial banks is concerned, they got loans either against Government security for a specified period of time or they get against bills. For each bank, limit is fixed in advance and the condition of eligible bills is laid down also in advance.

Before any accommodation is given to a commercial bank on a particular bill, there is an assessment as to whether the party on whose account a Bill is raised is worthy of credit or not. Again, some mistakes are made sometimes, but in general we do have a checking system.

There also some problems may arise. Over the last three years, we had taken a very rigid view of bills emanating from certain industrial companies; those industries would have been deprived finance at the time if they needed finance very badly. In some cases one has to be little flexible in view of circumstances, but we do see that in the course of our financing of the scheduled banks, first of all they are properly and adequately secured and they are meant for a genuine purpose. It sometimes happens that what we thought was for a genuine purpose has not turned out to be so, in which case some corrective action has been taken. As I said earlier, our corrective action in future should be much stronger. Rather I should say our prevention action should be much more effective.

श्री बी० एन० मंडल : जी यह मेमोरेण्डम आया है, इस को पढ़ने से ऐसा मालूम होता है कि यह सी० ए० जी० का इन्स्टीट्यूशन है, वह इन्स्टीट्यूशन इन रिलेशन टु रिजर्व बैंक ऐक्टिव रोल प्ले नहीं करता। एक तो उस में यह है कि सेंट्रल गवर्नमेंट के कहने पर ही वह कुछ कर सकता है इन रिलेशन टु रिजर्व बैंक, दूसरा आपने कहा कि रिजर्व बैंक उन से प्रॉपर्टी कर के काम

करवाना चाहे तो करवा सकता है। दोनों केसेज में इनीशिएटिव प्रपनी प्रोर से सी० ए० जी० का इन्स्टीट्यूशन नहीं ले सकता है। ऐसा हम आप के मेमोरेण्डम के समझते हैं। रिजर्व बैंक की प्राटोनामी मेन्टेन हो, इस संबंध में आप ने बहुत कुछ कहा है। लेकिन हम एक बात आप से पूछना चाहते हैं कि क्या यह बात सही नहीं है कि हिन्दुस्तान का कांस्टीट्यूशन बनने के बाद जो फक्शन एसाइन किया गया था रिजर्व बैंक को, वह उस फक्शन को ठीक से पूरा नहीं कर सका। इसलिए, उस के बाद कंट्रोल ग्राफ बैंकस का बिल आया वह भी नहीं कर सका तो प्रब बैंक नेशनलाइजेशन हुआ। दो मानों में गलती हुई है। एक तो इंटरलाकिंग हुआ, जिस के लिए शुरु में डायरेक्शन था, कि यह नहीं होने देना चाहिए। लेकिन रिजर्व बैंक यह नहीं कर सका। और कंसंट्रेशन ग्राफ वेल्थ इन रिलेशन टु पर्टीकुलर परसन्स एंड पर्टीकुलर रोजन्स यह भी हुआ। इस को रोकने के लिए पावर शुरु से रिजर्व बैंक के पास थी। लेकिन जब उस ने उस पावर को एक्सरसाइज नहीं किया तो कंट्रोल का बिल आया और उस से भी नहीं हुआ तो बैंक नेशनलाइजेशन हुआ। तो इतना होने के बाद भी, क्या इस बात की जरूरत नहीं है कि जो रिजर्व बैंक की प्राटोनामी है उस प्राटोनामी के रहते भी इस संबंध में कुछ ऐक्टिव रोल प्ले करने के लिए सी० ए० जी० को पावर दी जाय जो यह देखे कि जो रोल एसाइन किया गया था रिजर्व बैंक को वह पावर ठीक से एक्सरसाइज होता है या नहीं होता है? इस के लिए सी० ए० जी० जो कांस्टीट्यूशन का एक फीचर है, उस को अगर कुछ ऐक्टिव रोल दिया जाय इन रिलेशन टु रिजर्व बैंक, जो उस कार्य की निगरानी करता रहे तो वह ठीक है या नहीं?

DR. HAZARI: This is rather a wide area of policy, and I would say, the social conditions involved in this. It

is for Parliament and the Government to determine whether the Reserve Bank has succeeded or failed. It is also for Parliament and the Government finally to determine the criteria by reference to which success or failure should be judged. If, looking back, it is found that the Reserve was not as successful as it should have been, may be it is because the standards or the criteria set at that time were somewhat different. In any case, so far as the interlocking of Directors between banks was concerned, formerly, technically under the law, it was prohibited. In fact, things might have been slightly different. But there are also, as I said earlier, limits beyond which an external agency in a particular social environment cannot act. So long as banks were owned privately or they were under private ownership and their managements were nominated by those who owned the banks, there was a point beyond which Reserve Bank could not have determined the implementation of policies. The policies after all—I would be quite frank about it—which are pursued by the Reserve Bank are policies which are and have to be consistent with public policy. If public policy for a particular period of time was one, the Reserve Bank could not have been expected to be different. The Reserve Bank acts as adviser to the Government.

MR. CHAIRMAN: क्या आप के कहने का मतलब यह है कि उस वक्त रिजर्व बैंक ने यह काम नहीं किया इसलिए कि पब्लिक पालिसी उस वक्त यही थी कि इंटरलॉकिंग हो जाय तो कोई बात नहीं ?

DR. HAZARI: Let me spell this out. In many of the things as they have evolved in policy, the evolution has taken place over a period of time. Events at any particular moment or happenings at any particular moment have originated in many cases from what was the policy much earlier. It is, therefore, a little difficult to say

that for a particular moment, the Reserve Bank should have been judged by what we consider to be the right thing now. In any case, dealing with the limited point that we have before us, the question is whether one autonomous organisation or another autonomous organisation should look after certain things or that they should look after jointly or one superior to the other. On that issue, I would say that we are of the view that in respect of this particular area, the Reserve Bank should be the autonomous and supervising authority. If then, consistent with public policy, we are found wanting over a period of time, then it is upto Parliament to take a view.

SHRI KALYAN ROY: You have very effectively stated your views and given reasons for effective supervision and all the bank failures and other things of the past. When you say that the Reserve Bank was effectively supervising things, how is it that Pallai Bank failed and then this moratorium was declared in respect of the Bank of Bihar and then the scandal in London was pointed out? So if it were so vigilant and alarmed, how have these failures or scandals happen?

DR. HAZARI: Sir, with due deference I may first of all state that out of commercial bank deposits of now more than Rs. 5,000 crores the amount that has been involved more recently in either banks that had to be closed down or anything else, which one can say indicates serious deficiencies, is relatively small as a proportion. We would not, however, take shelter behind the proportions. We would still feel that insofar as action, let us say in relation to bank of Bihar or National Bank of Lahore, had to be taken or what we have now come to know in relation to the London branch of the Central Bank, it does indicate deficiencies. We do not deny that but at the same time one has apart from maintaining the sense of proportion, also to say that even with the best

supervision system and the most effective systems, some deficiency at some point can arise. We have to provide to the maximum extent against it but some deficiency can arise. With the maximum of care either some bad judgments take place or there is a failure but the things that have been brought out in the affairs of the Bank of Lahore or our assessment of the reasons which led us to ask for a moratorium on the Lahore Bank or what we are in the course of finding against the London branch of Central Bank, there is not only particular human failure involved but also that there is something wrong with the system within the Bank. It is true that the systems remain deficient in several respects even now. Particularly, I would say because the expansion has been so rapid in many cases, enough attention has not been devoted to training of staff, quality of staff. In many cases, people who could manage small organisations have had to manage large organisations without adequate training. These are the problems which ultimately boil down to evolving a new system of management.

SHRI KALYAN ROY: Could you say the trouble is at the level of the staff or among the Directors or some deliberate attempt is made to make money?

DR. HAZARI: Whatever the staff might do, the Management is in a sense responsible because the Management has the right to appoint and dis-appoint them. Also, it is a question of who takes the decision about manpower deployment and about training and so forth. In a few cases there have been instances of deliberate misfeasance of one sort or the other. This, once again, we have tried, consistent with what our system was, to prevent or to remedy in the past. We are going to do this. I think, much more effectively and with a greater degree. But if somebody were to ask me whether the Reserve Bank can remove it fully in future and that there will be

no scandals of any kind, you will appreciate, Sir, that no institution, human or other, can guarantee, but we will do our best.

SHR KALYAN ROY: You mentioned about the lack of information or delay in gathering information because of some manual way of collecting things. How are you solving it? Are you bringing in automation?

DR. HAZARI: Not exactly automation. Formerly—my colleague will help me in the details if he so wishes—the returns used to come with a time lag. Then they had to be checked, processed, tabulated, classified and then they had an operational significance. This used to take time. Now my colleague will explain to you.

SHRI SESHADRI: When any import or export transaction takes place, certain forms have to be filed with the Reserve Bank. In the case of exports, the first copy is filed when the goods are physically transported across the country's borders. The second copy is filed after the bill is negotiated and third copy when the payment on the bill has been made and the transaction has been completed and accounted for in the books of the bank handling it. All the three copies have to be matched together to ensure that the final payment is in accordance with the licences, or that the exports have been accounted for within the period of six months prescribed under the foreign exchange regulations.

We are now trying to reduce the time lag in matching these copies of the returns with the help of the Honeywell 480 Computer at Trombay. It is our aim in due course to have a personal index card for each major exporter in order to facilitate the analysis of his past performance in exports and to check on the realization of the export proceeds within the prescribed period.

SHRI SIDDAYYA: Have you ever made a study of the functions and powers of banks of other countries similar to Reserve Bank—Ceylon or Australia?

DR. HAZARI: There are plenty of studies on this, Sir. In fact, literature on this is plentiful. When you referred to Ceylon and Australia, you have in view the powers of the Auditor General therein relation to Central bank. First of all, each country has its own system. If on the one hand, Ceylon and Australia can be quoted, on the other, one can quote other countries where the system would be entirely different. The scope of the central bank in a country in relation to Government and Legislature also differs tremendously. In some countries, central banks are still privately owned, in other countries they are not. There are also differences in the relative positions of, say the powers of the governors and the officials of the banks and the officials of the Government. While it is true that in a few countries, the Central Bank is subject to audit by the Auditor General, it is also a question again whether and how far that power of audit is exercised and in what form. After reading our law, one can get the impression that C. & A. G. would have carried out the inspection if asked by Government. Fortunately, no occasion has arisen as yet. In that sense, while it is true that some countries have it, I may submit for your consideration that in any case if one is quoting precedents or examples, one can argue several ways.

MR. CHAIRMAN: Thank you Dr. Hazari and Mr. Seshadri for sharing your views and experience with us. We have been enlightened and we will give due weightage to these. Thank you again on behalf of the Committee.

(The witnesses then withdrew.)

IV Government of Gujarat

Spokesmen:

- (i) Shri L. R. Dalal, Chief Secretary, Gujarat Government.

- (ii) Shri R. K. Anklesaria, Commissioner of Sales Tax.

- (iii) Shri C. N. Shah, Deputy Commissioner of Sales Tax. (Special Duty).

(The witnesses were called in and they took their seats).

MR. CHAIRMAN: We welcome you all on behalf of the Committee. The evidence that you tender before this Committee is likely to be published and made available to Parliament Members.

SHRI L. R. DALAL: I have read that note.

MR. CHAIRMAN: We have seen your memorandum. If you want to supplement or clarify any point therein you can do so.

SHRI DALAL: We have made the position clear in our note. I may submit that the Auditor General had to powers to look into the receipts except with the approval of the State Government. In 1961 the CAG wrote to our Chief Minister expressing his desire to check the sales tax receipts also. In that letter he has mentioned certain conditions and clarifications subject to which our Chief Minister agreed to allow the sales tax receipts also to be audited. In 1967 we had appointed a Committee to go into the whole sales tax structure with Shri Odedra, ex-Finance Minister of Gujarat as Chairman. After taking evidence from all concerned, it came to the conclusion that audit by the AG in addition to internal audit of the sales tax department was not effective and that it was coming in the way of proper working and created a lot of difficulties for the dealers and the staff and the results achieved were not commensurate with efforts made. In clause 10 there is a proviso that the State Government may in consultation with audit take away that power from the audit and if you look to the proviso to clause 10, it says that the President may after consultation with the CAG relieve him from responsibility for Government accounts in a particular

class of character. There is no such proviso in clause 16 by which the President or the Governor of the State in consultation with the CAG can take away audit of a particular class of receipts. Clause 16 gives absolute and unfettered discretion to audit and it runs counter to their earlier stand. We want a proviso to clause 16 on the lines of the proviso to clause 10 so that if we later on find that the results achieved are not in consonance with the efforts made by audit and the time of the dealer and the department consumed, it should be open to the Governor in consultation with the CAG to do away with the audit of a particular class of receipts. In reply to our memorandum the CAG's office had made certain points. It is worthwhile to look into the original letter written by the CAG in 1961. He clarifies that the scope of the audit would be limited by its very nature; the audit of receipts unlike expenditure audit is limited in scope and since the collection and receipts of tax and duties is subject to judicial appeal audit will carefully avoid the discretionary and judicial aspects. He assured us that audit by his department was not intended to be and would not be an encroachment on the administrative field. Now, all those guidelines were there and were supposed to guide the audit. But year after years the audit become more and more inquisitorial and stated questioning the quasi judicial and discretionary functions of the sales tax officers Assistant Commissioner in Appeal and sometimes even of the State Government also. To that we object. Even in the PAC meetings we said that audit was going much beyond the scope of what was laid down.

Enclosed with that letter of the CAG was a note or memorandum which the CAG had drawn up for audit of income-tax, central excise, etc. There also the position was clear:

audit does not consider it as part of its duty to express a view on the judgement exercised or the decision taken by individual officers; they are interested only in judging the effectiveness of organisation, procedure, etc., whether the procedure which the department or the State Government has evolved is sufficiently effective to see that sales-tax receipts are properly received, that there is no leakage, etc. We never visualised that audit would go to the extent of examining individual cases.

We have a statement* here showing the result of audit in the last three years: how many cases were taken up by them, what was their performance. We find from that statement that the effectiveness of audit in 1967-68 was only 0.09 per cent and only 0.03 per cent was finally accepted and the amount realised was Rs. 94, 483 as against a revenue receipt of Rs. 37.31 crores. For 1968-69 the percentage is somewhat less and the amount recovered was Rs. 1,02,000 out of a total revenue of Rs. 43.72 crores. In 1969-70 the amount recovered is Rs. 46,000 against a revenue of Rs. 52.63 crores. We are ourselves interested in revenue much more than audit or any other party and as Finance Secretary, I was considering how the loopholes could be plugged. We have established squads which go out and detect cases just as we have squads even for forest revenue. Surprise checks are done. We had established three Assistant Commissioners at three important cities for audit purposes and we now have one Assistant Commissioner, Sales Tax in the office of the Commissioner whose job is also to audit. We audit a large number of cases and we have prescribed a ten per cent minimum for inspection at random and we find that there is not so much leakage as is generally believed. During 1968-69 the number of cases examined was 78,000; our detection of leakage is parallel or slightly more than

*See Annexure at p. 252.

theirs; our internal audit system is also there. We have been very vigilant about these things.

In one letter the CAG says that it is a constitutional function of the CAG and therefore it cannot be bound down by the State Governments. The CAG was supposed to be aware of the constitutional provision in 1961 when he wrote that letter to our Chief Minister; in 1968 he says that it is not valid and this is the approach which we are afraid of if unfettered power is given under clause 16. Imagine the audit party sitting in one office for a continuous period of one to one and a half months and that office getting disorganised. They are not able to function and their only job is to go on replying to the queries raised by the audit party. How can one say that they are not harassing the traders? For every small question that the audit raises, we have to call for the record because we do not tabulate and take down the statements in all the details, and we cannot imagine what facts and figures would be called for by the audit. It does mean harassment to the traders. Under the latest Act, the revisional period has been reduced from five to three years. Even if the audit points out that a particular order is wrong and if the period has lapsed, it is very likely in the case of such an Audit raised by the Accountant-General that the audit objection would be only on paper. We would certainly welcome any broad suggestion that by adopting such and such a procedure you can increase the revenue. If any such guidance comes, it will be good. But it is not forthcoming at all.

SHRI M. ANANDAM: I find a similar objection has come from a place where the audit is done by the Accountant-General. Two positions arise: one is the actual assessment. The second is the discretion of the Sales-tax Officer in the matter of assessment. In the matter of assessment, there are various types of

decisions that a Sales-tax Officer or an Income-tax Officer takes. But if the Accountant-General's audit comes, he also questions the propriety of the sales-tax department or the income-tax department. That is purely a power within the range of a Sales-tax Officer and the entire hierarchy of the commercial tax department as to how best they are able to decide it. But if the AG's office says that the discretion used by the Sales-tax Officer is not proper, it really affects the very independence of the Sales-tax Officer to make the assessment. It acts as a fetter on the officer himself to make an assessments. In the case of another party—we have not yet examined them—they have circulated a memorandum to us. As these people have rightly put it, the number of objections are very negligible, and the time spent by the Accountant-General on this particular aspect, if it is evaluated in terms of rupees, is much more. It is 10 to 15 times more than the actual amount that is detected as the evasion. Therefore, I feel that instead of our asking the Accountant-General to withdraw these things, it must be left to the discretion of the Government of each State to say whether that particular audit is necessary or not. Let us leave it to the Government itself. Let us leave it to the Government to say whether a particular Government receipt is to be audited by the AG or not.

MR. CHAIRMAN: We shall discuss that point ourselves in the Committee. What is your question?

SHRI M. ANANDAM: In your statement, you have said that the number of cases taken up for audit was 18,846. What is the total amount involved in it?

SHRI DALAL: The amount raised Rs. 3,28,000. We accepted the objection in respect of Rs. 94,000.

SHRI M. ANADAM: The total number is 18,000.

SHRI R. K. ANKLESARIA: They took up 18,000 cases for scrutiny, out of which they raised an objection in 395 cases and the amount involved was Rs. 3,28,000 odd. Ultimately, the amount accepted between the department and the audit was Rs. 94,000.

SHRI M. ANANDAM: What is the amount involved in the 18,000 cases?

SHRI ANKLESARIA: Neither the AG nor we would know it. Roughly, out of 85,000 dealers that we have today,—18 multiplied by five — it will be one-fifth of our total income. These figures are for 1967-68. The number of dealers would be 75,000. If we divide 75 by 18, it will be roughly about four times. At that time, our income was Rs. 39,000. The total amount involved, on a very rough basis, would be about Rs. 9 crores.

SHRI M. ANANDAM: You have an inspecting audit department in your own Government. You have said that you were not able to detect this. How did it escape?

SHRI ANKLESARIA: This is not so. In our Departmental Audit for six months of year 1967-68, Rs. 37,000|— was raised. In the year 1969-70, the audit raised the figure of Rs. 1,98 000 which is little more than the figure raised by the A.G. during the same period. They were different cases. Our audit confined itself to 10 per cent of the cases, whereas the AG's audit takes a much larger number. The labour involved in the AG's audit cases for the Department is tremendous. In the department, the number of cases taken up in the year 1969-70 was 6,327, whereas the AG took up 19,199 cases. It is almost three times. We recovered better than the AG's audit.

SHRI M. ANANDAM: Do you have any objection if the Accountant-General only audits the correctness of the assessment without going into the details?

SHRI DALAL: We have no objection.

SHRI ANKLESARIA: In 1965, the Comptroller and Auditor-General recommended certain methods of audit with which the State Government agreed. When the CAG gave certain broad concepts in precise terms, the State Government accepted them. It is only when they far exceeded the step that this issue came to be raised.

SHRI DALAL: In reply to what the hon. Member said, I would like to point out one thing. My attention has been drawn to this: there has been a judgment of the Supreme Court, on *Shivaji & Co. versus Commercial Tax Officer*, where they have held that "the Sales-Tax Officer should decide such matters thoroughly uninfluenced by any directions of superior officers." The Supreme Court has also "depre- cated the wisdom of issuing instructions in matters which are governed by law. It would be very wrong to ask the Sales-tax Officer to substitute the discretion of the audit for his discretion in cases where he has to exercise his discretion." When the Audit points out something, the matter will have to be revised and reviewed by the Deputy Commissioner or the Assistant Commissioner. The Deputy Commissioner or the Assistant Commissioner does not use discretion; he is using the discretion of the audit. It will be very highly objected to by the Supreme Court if somebody takes a different attitude.

SHRI THILLAI VILLALAN: You want to make a provision in the present Bill so as to restrict the powers of the CAG in respect of the States. You have stated specifically that the "State Government suggests that these powers could be different in relation to a State as compared with the Centre and also that provisions of the kind included in clause 18 of the Bill will cramp the functioning of the State Government." According to our Con-

stitution, under article 151, the CAG is empowered to audit the accounts of the States and submit a report to the Government. Can you suggest any provision without violating the Constitution, and at the same time, fulfil the purpose you have suggested here? That is why this proviso which we have suggested, proviso to clause 10. If you read the Constitution. Article 151 in respect of the Auditor-General, you will find that he cannot audit the accounts of State revenues without consultation with the State Government. That means that the position prevailing today is absolutely constitutional. My Law Secretary has given the green signal so far as this proviso is concerned.

MR. CHAIRMAN: Here you have given in this proviso the words "in consultation with", but it is in regard to compilation of accounts. In regard to audit, will it not be inconsistent with the powers given to the Auditor-General in the Constitution?

SHRI DALAL: That is true, Sir. But today also you see, Sir, that even in spite of Article 151, the Auditor-General is not able to undertake any audit without consulting the State Government.

MR. CHAIRMAN: That is because we were continuing the old practice. Now we are legislating and we cannot legislate against the provisions of the Constitution.

SHRI DALAL: The best solution would be to drop clause 16 altogether.

MR. CHAIRMAN: No, I would suggest that you could have made a constructive suggestion that instead of here saying "after consultation", if you say "further that the President may, with the consent of the Comptroller & Auditor-General" then it is he who gives powers.

SHRI DALAL: You know, Sir, how difficult it is to get the consent of the Auditor-General.

SHRI S. S. KOTHARI: The Auditor-General is conducting a check or test checks in respect of income-tax receipts of the Central Government also. If they do not have much difficulty, how is it that you will be having so much difficulty. Is the Auditor-General prejudiced against your Sales-tax Department? What is it?

SHRI DALAL: I have never said anything of that kind. We are talking very objectively. The very fact that the income-tax department does not find any difficulty, does, not prove anything. May be, they are finding difficulty, but they do not have the courage to say so.

SHRI S. S. KOTHARI: In any case, perhaps the remedy would lie in the Auditor-General being asked to look into his procedures and modify them in such a way that it will cause the least inconvenience.

SHRI DALAL: I have consulted my Law Secretary. So far as we are concerned, we feel that it will not be unconstitutional. If, however, Government of India in the Law Ministry advise that it may be unconstitutional, then the next best solution would be to provide for that in the Act itself.

MR. CHAIRMAN: While we have all sympathy for what you are arguing, our hands are tight.

SHRI DALAL: If it is that providing a proviso would be unconstitutional, then my next suggestion would be that let us define it on the lines that he himself has mentioned in his letter.

MR. CHAIRMAN: That could be done only by convention. We cannot provide it by law.

SHRI DALAL: There is no difficulty in the law. Now the trend of legislation has been that we put in the Act the guidelines for various things.

MR. CHAIRMAN: We have written to other State Governments.

SHRI DALAL: Two State Governments, I am glad to say, are supporting us. Kerala is supporting us and yesterday I got a letter from West Bengal also. In the latest conference that we had, they had started coming out in our favour.

SHRI S. S. KOTHARI: Is it a fact that there is considerable amount of corruption in respect of sales-tax officers in most of the States in India? What is your experience or view in this regard? I would like to have an objective reply.

SHRI DALAL: It will be very difficult for anyone to make any statement on corruption.

SHRI S. S. KOTHARI: Then you tell me whether graft is on the increase?

SHRI DALAL: I would not say that. By the way, our revenue has been going up. I would say audit is not the way out of checking corruption. Our way is that if we find that a particular officer's discretion is *mala fide* in a number of cases, then we may take departmental action against him.

पं० भबानी प्रसाद तिवारी: यह जो आपने मैमोरंडम दिया है इसके पैराग्राफ 3 में सेल्स-टैक्स इन्क्वायरी कमेटी का प्रसंग आया है और इन्क्वायरी कमेटी का कुछ अंग इसमें लगा भी है। इस बारे में मैं एक दो सवाल पूछना चाहता हूँ।

इसमें यह स्वीकार किया गया है कि—

That the State has accepted the Accountant General's audit for sales-tax receipts and refunds for a limited object and scope.

जब यह स्वीकार किया गया होगा तभी वहाँ पर ये आडिटर्स गये होंगे। तब इसमें यह लिखा हुआ है कि—

We have received criticism against Accountant General's audit from the dealers, sales tax practitioners' Association and from the officers of the Sales Tax Department.

इसमें मैं यह जानना चाहता हूँ कि जब ये विभिन्न स्वार्थ हैं—जो सेल्स टैक्स आफिसर का स्वार्थ है वह डीलर का स्वार्थ नहीं है; जो डीलर का स्वार्थ है वह सेल्स-टैक्स आफिसर का नहीं है। इसी तरह वकीलों का जो स्वार्थ है वह तीसरा स्वार्थ है। तो ये तीनों स्वार्थ जो भिन्न-भिन्न हैं; ये इकट्ठे कैसे हो गए और इसको बल का आधार कैसे बनाया?

SHRI DALAL: We had accepted the audit in full faith that the Accountant General will go by what the Auditor General had mentioned in his letter of January, 1961. We had no reasons to believe that the assurance given by the highest authority of the audit would not be observed in spirit as well as in letter by the Department.

पं० भबानी प्रसाद तिवारी: मेरा सवाल तो यह था कि सेल्स टैक्स डिपार्टमेंट में यदि भ्रष्टाचार हो जाए या भ्रष्टाचार की शिकायतें आती हैं तो आपको उस समय क्या स्थिति रहती है। इसका उत्तर आपने नहीं दिया। इसलिए मैंने यह पूछा कि ये जो विभिन्न स्वार्थ हैं ये सब आडिट के खिलाफ एक हो गए, तो यह स्थिति कहीं भ्रष्टाचार की स्थिति तो नहीं है?

SHRI ANKLESARIA: I have been the Commissioner of Sales Tax for some time and I can certainly say from my experience in other posts also that the Sales Tax Department in our State is not one bit worst than, say, any other department.

पं० भबानी प्रसाद तिवारी: मैं तो यह जो डीलर्स, सेल्स टैक्स आफिसर का जो मिलकर आडिट के खिलाफ आते हैं, मैं इसका विरोध करता हूँ। इसलिए सरकार एक मजबूत आधार बनाकर खड़ी होती है। इसी दृष्टि से आडिटर जनरल को वहाँ भी लाया जाना चाहिए।

SHRI DALAL: When everybody suffers, all the people join.

SHRI SIDDAYYA: Is this difficulty experienced in this department only or other department also.

SHRI DALAL: Sales-tax department is the largest earning department, others are spending departments. This is the only department which is largest revenue earning.

SHRI S. M. SIDDAYYA: What about Forest Department?

SHRI DALAL: This is a small department. There the contractor enters into a contract with us, but here is the dealer who is independent, he can go up to the Supreme Court.

SHRI ANKLESARIA: The C.&A.G. in the initial part of his letter had said that they will not take up quasi-judicial matters. But now this is the stage which we have reached today that the auditors were going beyond the scope and were raising quarries and audit points on matters which were within the discretion and exercise of powers of Sales Tax Officers acting as quasi-judicial authorities. We have had protracted correspondence in this regard.

MR. CHAIRMAN: Did you take up this with the C. & A. G.

SHRI DALAL: We were taking up with the Auditor General, when this Bill came. In fact, we were just thinking to withdraw our consent which the Governor had given, when this Bill came.

SHRI ANKLESARIA: Now when certain double taxation arose, and the State Government gives relief to avoid double taxation, Accountant General says, that even this is not correct.

सभापति महोदय : आपने जो बातें हमारे सामने रखी और जो भी निवेदन किया, उसके ऊपर हम विचार करेंगे और कोशिश जरूर

करेंगे कि ऑडिटर-जनरल के साथ आपकी जोशिकायतें हैं वह कहाँ तक दूर की जा सकती है कंस्टीट्यूशन को बिना अमेंड किए। आप लोगों ने जो सहयोग दिया उसके लिए हम आपको धन्यवाद देते हैं। और भी आप लोग कुछ निवेदन करना चाहते हैं तो 12 तारीख से पहले लिखकर भेज दें।

श्री अंकलेशारिया : मैं आपको कुछ अट्टरनेटिव ड्राफ्ट सजेस्ट करना चाहता हूँ, वह हम भज देंगे।

(The witness then withdrew)

सभापति महोदय : अब हमारी कमेटी का काम समाप्त होने जा रहा है। इसके पहले कि हम अपना काम समाप्त करें, मैं समझता हूँ कि औपचारिक रूप से और दिल से भी हमलोग महाराष्ट्र के शासन को और उनके सेक्रेट्रियेट को धन्यवाद देते हैं कि उन्होंने हमारे लिए यह प्रबन्ध किया। मैं कमेटी की तरफा से उनको धन्यवाद देता हूँ।

दूसरी बात यह है कि कल हम लोगों ने सभी की सम्मति से यह सोचा था कि हम 18, 19 और 20 तारीख को बैठकें करें। 17 और 18 तारीख को हम फूड कारपोरेशन को बुलाना चाहते हैं। 19 को छुट्टी है। हम लोग 17, 18 और 20 तारीख को दिल्ली में अपना काम करेंगे।

आप लोगों को भी मैं धन्यवाद देता हूँ कि आपने दूसरी जगह आकर अपना काम किया है आप लोगों के सहयोग के लिए मैं दोबारा धन्यवाद देते हुए बैठक समाप्त करता हूँ।

(संस्थान बैठक समाप्त हुई)

**MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER
AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969**

Friday, the 17th July, 1970 at 15.00 hours

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Dinkar Desai
5. Shri Nageshwar Dwivedi
6. Shri J. M. Imam
7. Shri S. Kandappan
8. Shri S. S. Kothari
9. Shrimati Sangam Laxmi Bai
10. Shri Dhuleshwar Meena
11. Shri Anand Narain Mulla
12. Shri P. K. Vasudevan Nair
13. Chaudhuri Randhir Singh
14. Shri S. M. Siddayya
15. Shri S. N. Shukla
16. Shri R. Umanath

Rajya Sabha

17. Shri M. Anandam
18. Shri C. D. Pahde
19. Shri Kalyan Roy
20. Pandit Bhawaniprasad Tiwary
21. Shri B. N. Mandal

LEGISLATIVE COUNSEL

1. Shri S. K. Maltra, *Joint Secretary and Legislative Counsel, Ministry of Law.*
2. Shri A. .P. Pandey, *Asstt. Legislative Counsel, Ministry of Law.*

REPRESENTATIVES OF THE MINISTRY OF FINANCE

(DEPARTMENT OF ECONOMIC AFFAIRS)

1. Dr. I. G. Patel, *Secretary*.
2. Shri B. Maithreyan, *Joint Secretary (Budget)*.
3. Shri A. G. Krishnan, *Deputy Secretary (Budget)*.

SECRETARIAT

Shri M. C. Chawla—*Deputy Secretary*.

WITNESSES EXAMINED

I. The Ministry of food & Agriculture (Department of Food).

Spokesmen:

- (1) Shri K. P. Mathrani, Secretary, Department of Food, Government of India, New Delhi.
- (2) Shri R. Balasubramanian, Joint Secretary (Policy), Ministry of Food and Agriculture, (Department of Food).

II. Food Corporation of India

Spokesmen:

- (1) Shri Shah Nawaz Khan, Chairman, Food Corporation of India.
- (2) Shri A. K. Majumdar, Commercial Manager, Food Corporation of India.
- (3) Shri C. V. Ramachandran, Financial Adviser, Food Corporation of India.

(The witnesses were called in and they took their seats).

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MR. CHAIRMAN: Hon. Members of the Committee, I welcome you for this session. Probably you are aware that because of the reorganisation of the Cabinet, our Minister has changed and therefore the new Minister has to apply his mind to the work that we are doing. And hence he wrote to me a letter asking me that sometime should be given to him to enable him to go through the whole evidence.

I wrote back a letter, of course, taking your approval, that we could understand his difficulty and in our meeting to-day, we shall try to postpone the clause by clause consideration till such time as it suits him. This is very necessary and I think that we shall have to accommodate

him. I had, in my own way, permitted him today even though he is not made a member of this Committee. Today he will associate with us. I have asked him to be with us and to give us the pleasure of his participation in our deliberations.

Now, will you please introduce yourself and your colleagues to the Committee.

(At this stage, the Secretary introduced his colleagues to the Committee).

You have already submitted two memoranda. They are sufficiently expressive. But, still, if you want to offer some additional remarks or clarifications, you are welcome to do so. After that, the Members of the Committee, one by one, would like

to ask you questions and get your replies.

SHRI K. P. MATHRANI: As you mentioned, the two notes given by the Food Corporation and by the Ministry are briefly in regard to the five points on which the Joint Committee had asked us to give our views.

So far as we are concerned, we have three public undertakings—one is of course the Modern Bakeries a joint stock company which is governed by the Companies Act; the other is the Central Warehousing Corporation which is also governed by a statute which has recognised the jurisdiction of the Comptroller and Auditor General in the matter of audit as long as any subsidy is to be paid to the Corporation.

The main Corporation with which we are concerned is the Food Corporation of India about which there is no mention that the C. & A. G. has any authority of audit of that Corporation. Of course it provides that Government would act on the advice of the C. & A. G. who will provide them with a list of auditors. From that list, the auditors would be selected. That practice has been followed so far. There is a long history behind this particular provision. The Former Minister of Food and Agriculture applied his mind in great detail to this particular aspect and there was an internal discussion also. It was felt that having regard to the special features and the nature of activities of the Food Corporation, it would not be in the interest of the functioning of the Corporation for the C. & A. G. to direct the auditing functions over it. Apart from the autonomy of the Corporations and the manner in which they should function, they should function on a commercial basis and so they should not be hampered by undue restrictions in which the normal government departments are subjected to. As a result of this, special auditing provisions have been made in the Act.

Also there are special features about the Food Corporation of India. I may mention incidentally that a long time ago, in 1959-60, when I was in the Ministry of Finance, I myself had to apply my mind to this Bill. Since that time much water has flowed. And many questions have arisen as to what extent the autonomy of the Corporation should be preserved and to what extent the desire of Parliament and the Government in the matter of the activities of public sector undertakings should be fulfilled. No doubt investment is heavy and so there should be proper vigilance and control over the functioning and propriety of the Government undertakings. At that time it was felt, however, that having regard to general things mentioned earlier, it would be desirable to maintain certain amount of autonomy in this matter and that it will be desirable also that they should adopt commercial accounting and of audit. It was of course accepted that the commercial auditors should perform the functions properly. They should nevertheless go into propriety. Sections 19 and 20 of the Draft Bill contain certain stipulations which are relevant for the purpose.

I mentioned that Food Corporation have special features about the activities and so on. I will illustrate some of these which may not be susceptible to close audit by the Government.

The Food Corporation is essentially a trading body. In fact I was mentioning light-heartedly to Gen. Sahib the lowest form of trading where day-to-day transactions take place of different types over which you cannot record your reasons for doing this or that.

There is procurement and purchase of foodgrain under control system where quality comes in. Quality cuts in the case of defective quality that we impose.

Purchase from open market: Discretion is exercised by the purchasing authority as moisture, colour, etc. are to be taken into consideration. Whenever we visit two or three mandis we have no time to record reasons for decision.

Apart from purchase there is transport, storage and sale. Transport buses have to be engaged at short notice. In the rush season we have to arrange for storage accommodation of all types and so on. We have to delegate powers to our own officers. Lot of delegation of powers takes place here. It is difficult for the officers to record reasons for decision and so on.

It does not necessarily sell at the highest price but bears in mind the social and economic aspects for which the Corporation was set up.

These functions may have to be borne in mind apart from the general question whether our Corporation over which CAG has no control at present should be brought under CAG.

Food Corporation is a trading Corporation and it has both economic and social purposes to perform and that it should be subject to the same discipline.

SHRI SHAH NAWAZ KHAN: Shri Mathrani, Food Secretary has explained various aspects of the proposal before us. While piloting the Bill in Parliament in 1964, the then Minister for food laid great emphasis on the business and trading character of the Food Corporation of India. We have included his remarks in the Memorandum that is being presented to the Committee. He has said "that this will have to be realised and that is why in this Bill as far as Audit and Finance are concerned we are trying to evolve a new practice for the purpose of seeing that this is treated as a business and trade organisation and not as another De-

partment of the Government of India."

This aspect was borne in mind when this enactment was legislated in Parliament and this system has worked to our minds quite satisfactorily and the same conditions which prevailed then for keeping this aspect in view are still prevailing.

About the functions of the Food Corporation, I would like to highlight one or two important aspects which I would like the Hon'ble Members of the Committee to give due consideration.

In the Food Corporation of India the profit is not the main motive. The Food Corporation has two main objectives to serve:

1. To serve the consumers; to look after the interests of the consumers. In that we try and supply food grains at a controlled price to the consumers.
2. To serve the interest of the growers.

These two aspects are most important. Very often, Sir, it has happened in the past when the open market price of wheat and gram during the last season were shooting up, the Food Corporation deliberately threw in the market cereals at a much lower price than the prevailing market price. That we feel might be very strongly objected to by the Auditor that we have deliberately incurred a certain loss. But that was considered necessary in the larger social objective of supplying food grains to the public at a reasonable price. When the price of Desi superior wheat was Rs. 115/- per quintal, the Food Corporation of India threw it in the open market at Rs. 90/- or so and that immediately brought down the market price of wheat. The same thing happened in the case of gram. We deliberately threw in the market gram at a

cheaper rate than the prevailing market price.

Then again, there are instances where the market prices of food-grains are abnormally low and the Government in its wisdom feel that the farmer should be given a support price. For instance, during the kharif season the price of maize in Punjab fell very low—Rs. 44/- per quintal. The Food Corporation felt that that was not a fair price to be paid to the farmer and we entered the market and made purchase at Rs. 52/- per quintal in order to give support to the farmer.

This season, we found that the growers who were growing potatoes were getting lower price. We entered the market for the purchase of potato and that helped to maintain the price structure at a reasonable level and it has helped the farmer.

These are some of the peculiar natures of the operations of the Food Corporation.

With the abolition of zones when we have to maintain a dominating role in the grain market, the Food Corporation has to enter the market and compete in the open market with the traders and I might state here that during the peak period in Punjab as much as 10 lakh bags of wheat were coming to the market every day. In the regulated markets the grain is heaped into so many different heaps and it is auctioned and the auction generally takes one or two minutes and we have to take a decision within that time to be able to compete with the private trader and, therefore, to follow the rigid methods to satisfy the audit would be rather difficult for the Food Corporation of India by the very nature of our operations.

SHRI M. ANANDAM: In the note submitted and in your explanatory

remarks, you gave us an impression that the business of the Food Corporation by nature involves taking decisions spontaneously at the spot and you cannot have the rigours of the Government practices and because of all these things, it is not possible for you to satisfy the C. & A.G. at the time of audit, if he has to question the propriety of various transactions.

My feeling is that the very purpose of audit is not only not understood properly by the Food Corporation but by a number of people also who have come here to give evidence in the sense that the Auditor General does not only conform to certain set rules for the purpose of audit, but he also tries to understand things and takes into consideration circumstances in each case to find out whether the policy adopted by the Corporation is proper or not. If you have gone to the open market for purchase of grain and have purchased the grain, you can very well explain to the C. & A.G. that you had to take certain on-the-spot decisions to purchase certain things. If your explanation is not accepted, you have got the P.A.C., which would go into the matter and then decide whether the explanation is plausible, but it does not impair the conduct of the Corporation in the matter of purchase or sale. Even in the case of purchasing grain for the purpose of giving a proper price to the farmer, suppose the market has crashed and you want to protect the farmer by making purchases at a little higher rate, it is not an individual who takes the decision, it is probably a committee. Then the market is going down and to support the prices, it is necessary for you to make purchases at Rs. 120/- instead of Rs. 70/-, you place the decision of the Committee before the C. & A.G., the propriety of it can better be explained to him and he would be able to appreciate your view also. Similarly you sell also. If the market is at Rs. 120/- and you want to bring it to Rs. 70/-, you

can sell it and make a case for it and place it before the C. & A.G. and probably he would accept it.

Why do you think that audit would impair your activities.

SHRI SHAH NAWAZ KHAN: The whole idea is that if the audit is to be done by the C. & A.C. then the officers will develop the same mentality and adopt the same attitude as is adopted by the officers in government departments. We apprehend that the initiative of our officers will be greatly curbed to take on-the-spot decisions because they will have a fear complex that later on they may be called upon to give explanations and they may not be willing to take a decision on the spot.

May I also give an illustration? After the Rabi season, we have to transport lakhs of tons of foodgrains very quickly before the rains come in in a period of one month or five weeks from the purchasing areas in Haryana and Punjab to Maharashtra, Bengal, Assam and other distant places. Sometimes, it happens in spite of taking all the precautions, when we are moving grains by open wagons and we have to move it by block special, i.e. box rate, properly covered with tarpaulins, the tarpaulins are blown off, or some miscreants cut the ropes in their attempt to steal, then that wagon gets drenched when it reaches the other end. As soon as it is found that the wagon is drenched, the officer on the spot in order to save the grain has got to engage special labour and try to take measures to salvage the foodgrain. Our apprehension is if he has to answer objections to the Auditor General later on, he would wait till he gets permission from the higher authorities and even then he may not feel confident and the foodgrains may completely get deteriorated and we incur heavy losses. That is a sort of situation.

SHRI MATHRANI: May I supplement? There is no doubt and I

agree that the Government undertakings should observe certain sound business principles. In the matter of broad functioning of any Corporation or any undertaking, the Board of Directors will decide these things. But there are also day-to-day activities. Now it is not that there should be no audit. As one who has worked in the Finance Ministry for half of his service, I would not say that. Audit is a must. The only thing is with regard to the general approach of the audit organization which largely deals with administrative activities and so on and has developed some particular aptitude. We do not intend to cast reflections, it is only a question of approach.

The Auditor General's organization is a very big organization and there is a feeling that there is a tendency that the conditions prevailing at the time are not fully appreciated by them. The types of questions that are asked show that they do not appreciate the real situation. In fact it reminds me of a case in Industrial Finance Corporation. I took over from my predecessor, who had entertained 72 persons to a dinner in honour of Director of the Development Loan fund. There was an audit objection as to why it was necessary to entertain 72 persons for the sake of only two persons. We explained to them and they dropped the point. It is therefore, felt that commercial auditors properly guided and supervised by the Auditor General may probably be a better method.

SHRI M. ANANDAM: My point is that so many decisions are taken on the spot. Unless there is a proper control and check from an outside authority, how can you say that the decisions taken by these people are properly warranted. This is all the more necessary in the case of the Food Corporation of India where on the spot decisions are taken. There, must be some

external authority to control and check those decisions. Unless this is done I am afraid that all this arbitrary way of doing things might lead to some type of rash results. As a matter of fact, I can say from experience that a number of grains and crops of the Food Corporation of India were left in godowns and could not be lifted and ultimately had to be auctioned because they had deteriorated in quality. Some external authority should see why they were not released at the proper time, why it was necessary to auction them in the market when they had deteriorated, etc. It is for someone else to judge and report, and this report is possible only when the C.A.G. can check it. Suppose you don't release the grains in spite of somebody asking for them and once they deteriorate you sell them at a reduced price, who should check this activity of the Food Corporation of India? There should be somebody to report on and control such things. When the action of the Corporation is not proper, Government should take note of it.

SHRI SHAH NAWAZ KHAN: Sir, the accounts of the Food Corporation of India are placed on the Table of the Lok Sabha. We function under the Ministry of Food and the Ministry of Food also present their accounts and therefore our accounts do go before the Parliament. We present our annual report and that also goes before the Parliament. In the Corporation, apart from the external auditors, we have the system of internal audit. We have a very thorough and well organised internal audit and that audit is continuously on the look-out to find out if there are any lapses on the part of the Corporation.

Regarding the losses in storage, Sir, I might say that the losses in storage in the Food Corporation of India are less than 1 per cent. That is the quantum of losses in storage. It does happen, Sir, that when we make commercial purchases, then we auction those stocks but that is only a purely

commercial operation and it is not in respect of cereals like wheat and rice; it may be in respect of gram, pulses or barley or such like things.

SHRI MATHRANI: If I may supplement this, Sir, I may say that the Food Corporation of India has three types of activities. One is the activity of the Food Department, that is, purchasing and selling on behalf of the Government of India. The second is as an agent of the State Government. The State Government authorises the Food Corporation to function as its agent. The third is the commercial activity relating to pulses etc. For all these three complex activities, it may be borne in mind that there is both administrative control and financial control—administrative control by the inspection of Regional Managers and so on and audit and financial control by a separate internal audit. In the private sector, commercial audits are used.

SHRI A. N. MULLA: I take it you don't object to commercial audit but you object to the audit by the Comptroller & Auditor General because you feel that when the Comptroller & Auditor General comes into the picture, the officers who take decisions on the spot will not be able to function in that manner. They will become nervous and so, perhaps, the efficiency of the Food Corporation might suffer. Is that your stand? If this is your stand and once you concede (and I think you will) that the Food Corporation expends a vital lot of money of the State, the State is entitled to see that the expenditure is properly supervised by some type of auditing which would satisfy the State. So now the State opts to appoint the Auditor General for this supervision instead of the present commercial auditor. I think you will concede that the Auditor General's auditing would be better than the auditing of the Commercial Auditor. I fail to understand why a better auditing is being objected to and you want an inferior audit to be conducted.

SHRI SHAH NAWAZ KHAN: Sir, I submit that if the Auditor General would treat the Food Corporation as a business and trading organisation, we would have no objection to audit by him. All that we are concerned with is that the initiative of our officers is not curbed and, as you have very rightly stated, that their efficiency does not suffer. In fact we would welcome it.

SHRI A. N. MULLA: Even for an efficient officer who is functioning in a bonafide manner, it is possible that he will commit certain mistakes also. But because one may commit mistakes, you think the initiative of any efficient officer who is functioning in a bonafide manner would be affected because the supervision is by a public authority?

SHRI SHAH NAWAZ KHAN: Instances can be given where officers who have taken the decisions in good faith—perfectly good faith—have been made answerable by the C. & A.G.

SHRI A. N. MULLA: We do not know those instances. And so I am not in a position to say if they acted in the best interests of the State and there was justification for them to act in that manner. Still the C. & A.G. pounced upon them and made some sort of a report against them. It is not easy to accept that position. Suppose the Auditor General takes a particular decision—I am doubtful about this—we cannot say that he would have done like that. After all when we appoint the Auditor-General he would be a man of intelligence; he would also appreciate the bonafide mistake committed by an officer on the spot and the circumstances in which he committed that mistake.

SHRI S. S. KOTHARI: Who knows Shri Mathrani may be the next C. & A.G.'.

SHRI MATHRANI: Our C. & A.G. is the highest authority as far as controlling the financial institutions are concerned. Nobody can deny that

right and privilege. However, as mentioned earlier, our commercial auditors guide the commercial organisations in the matter of performing their commercial functions.

As mentioned earlier, the A.R.C. has recommended setting up an Audit Board and Government has accepted that recommendation in principle. I do not know in what form that board will be set up. I was wondering as to whether the whole question of auditing of the public undertakings could not be reviewed in that context. It was necessary to take a broad decision. Now a broad decision is taken in regard to audit board on the lines of the French Pattern. That might apply to everybody. We do not say that there should be no audit. Whatever investments we make the Food Corporation have to show them in their accounts. To that extent the accounts have to be audited by the C&A.G. But, in the day-to-day trading operations, we all make mistakes. Later, when we find that a mistake has been made, at that time, our function in the interest of the Corporation is to pinpoint that. Every such action tends to demoralise the officer if something goes wrong.

SHRI A. N. MULLA: My question was a short one and you have given a long answer. I want to put to you one more question—where a discretion is vested in officers, the greater the chances of committing the mistakes the greater the need of the State to see that this is explained. Do you agree?

SHRI MATHRANI: Yes, Sir, they have to be explained.

SHRI C. D. PANDE: I would like to put one or two questions. At the lower level the functions are such that they have to do things on the spur of the moment. There is no time to wait or to consult everybody. One has to decide in a moment. I think that is the condition in any business organisations. Even in the L.I.C. and

other allied Corporations the people who operate the share markets have to make up their mind in a moment whether they should go in for purchasing the shares or not. In such an event you are at the mercy of the man who is actually operating the business irrespective of the fact whether you appoint a commercial auditor or your own departmental auditor. The man who operates the business has to do a certain thing at the spur of the moment. If he is not allowed this latitude he will not take up the responsibility. In any event your commercial auditors will be helpless there. They are at the mercy of the people who are purchasing the things. There are various other things that have taken place in the Food Corporation which have come to our notice.

Take for example Basmati rice. From my experience I can say that basmati rice which is sold in the market or in the rationing shops is hardly basmati rice. There are four grades of rice. The man who purchases the rice may have to pay Rs. 15 more per quintal for the slightly higher grade quality of rice. If you haul him up, he will not do his duty properly. This is applicable to every operation that he does. If this thesis is accepted, our hands will not be secure. I know as to what is the difference between the departmental auditing and the commercial auditing and the auditing by the Auditor General. I think the Auditor General will not look into such details the accounts. He would simply see the bigger accounts to know whether there is any mistake committed and if so, there is any remedy to avoid that in future.

SHRI SHAH NAWAZ KHAN: I would like to explain firstly the procedure of purchases made by the Corporation. Senior inspectors are in the market. They do the gradation of the rice. These senior inspectors are going round and checking it. They take samples and check them. There is a countercheck made with regard to

the functions of the inspectors in the market.

Parliament, in their wisdom, recognised that there was a distinct difference between the functioning of government departments and business organisations. And that is why Parliament, in their wisdom, in 1964 accepted the enactment in that particular form. Our only fear, as I have already explained, is that it would effect the initiative of our officers people who have been in charge of administration and who have to reply to audit paras, will understand that the officers fear nothing more than the audit objections.

SHRI S. S. KOTHARI: Not the honest officers.

SHRI SHAH NAWAZ KHAN: That it takes a great deal of time for any organization in replying to the audit paras.

श्री बी० एन० मण्डल : फूड कारपोरेशन ऐक्ट बनने के पहले जो काम ग्राज फूड कारपोरेशन के जरिये हो रहा है, वही काम पहले गवर्नमेंट डिपार्टमेंट के जरिये में होता था ?

श्री शाहनवाज खां : कुछ कुछ होता था ।

श्री बी० एन० मण्डल : आपके मुताबिक श्री जो थोड़ा काम फूड कारपोरेशन के जरिये ग्राज हो रहा है वह पहले गवर्नमेंट डिपार्टमेंट के जरिये होता था और उस समय ग्राडिटर जनरल उसका ग्राडिट करता था । तो ग्राज भी वह ग्राडिट करे तो क्या हर्ज है ?

श्री शाहनवाज खां : पहले जो फूड डिपार्टमेंट काम करता था वह ज्यादातर जो इम्पोर्ट ग्राज किया जाता था, उसका स्टोरेज और स्टेट्स को उसका तकसीम का ही मेन काम होता था । ग्राज फूड कारपोरेशन को बहुत बड़ी संख्या में बंगाल में 4 हजार

परचेज प्वाइंट्स खोलने पड़े हैं जहां हम खुद अनाज खरीदते हैं यह काम पहले गर्वनमेंट डिपार्टमेंट नहीं करता था गर्वनमेंट डिपार्टमेंट का काम तो थोड़ा था, पर फूड कारपोरेशन का काम बहुत बड़ा है जो कुछ पहले कमर्शल परचेजेज नहीं होती थी वह भी फूड कारपोरेशन आज खरीद रहा है इसलिए गर्वनमेंट डिपार्टमेंट और फूड कारपोरेशन में बहुत बड़ा फर्क है और चूंकि फर्क था, इसलिए फूड कारपोरेशन को बनाना जरूरी समझा गया, नहीं तो गर्वनमेंट डिपार्टमेंट ही चलता रहता।

श्री बी० एन० मण्डल : फूड कारपोरेशन की ऐक्टिविटीज का दायरा बहुत बढ़ गया है, इस कारण से उसमें गड़बड़ियां आ गई हैं। हमारे सहरसा जिले में ही, मुझे वहां किसी आदमी ने आकर बताया कि जो अनाज वहां माधोपुरा स्टेशन पर रेलगाड़ी से उतरता है वहां उताने कैरेसिटी स्टोरेज की नहीं है, फिर भी वहां पर अनाज उतारा जाता है। नतीजा यह होता है कि जो आदमी इंचार्ज है, वह करण्ट प्रैक्टिस से घमोर होता जा रहा है।

श्री शाहनवाज खां : मैं बड़े घटब से अर्ज करता हूं कि यह तो आपकी सुनी-सुनाई बात है, इसमें हकीकत नहीं है।

श्री बी० एन० मण्डल : एक आदमी को मेरे साथ कर दोजिए। हम जाएंगे तो वहां जिन लोगों ने हमसे कहा है, उन लोगों से कंटेक्ट करवा देंगे और वहां पर इन्क्यूरी करके वह गड़बड़ी वहां पर होती है या नहीं, यह आप देख सकते हैं।

हम समझते हैं कि आज कंट्रोलर एण्ड आडिटर जनरल का आडिट इसलिए भी

जरूरी है क्योंकि हिन्दुस्तान की जनता पालियामेंट के जरिये से ऐडमिनिस्ट्रेशन के ऊपर एफेक्टिव कंट्रोल कायम करना चाहती है। गर्वनमेंट का कंट्रोल है या नहीं, लेकिन गर्वनमेंट के ऊपर भी कंट्रोल करने के लिए कंस्टीट्यूशन में आडिटर जनरल को रखा गया है जो गर्वनमेंट की भी निगरानी करता है। इसलिए जो अम्पूज गर्वनमेंट नहीं रोक पा रही है, फूड कारपोरेशन नहीं रोक पा रहा है, इन सारी बातों को देखने के लिए कंस्टीट्यूशन में जो प्राविजन है उसको एफेक्टिव करने के लिए जब कोई बिल आता है तो हम चाहते हैं कि अगर हमें कंस्टीट्यूशन के अन्दर चलना है, यहां डेमोक्रेसी रखनी है, जनता की एफेक्टिव वाइस पालियामेंट में होनी चाहिए, तो पालियामेंट का एफेक्टिव कंट्रोल गर्वनमेंट के ऊपर होना चाहिए। जब ऐसी बात हो तो हम समझते हैं कि आपको कंट्रोलर एण्ड आडिटर जनरल के आडिट से कोई आम्बेक्शन नहीं होना चाहिए।

श्री शाहनवाज खां : हमें आम्बेक्शन नहीं है। मेरी इतनी ही भर्ज है कि 1964 में पालियामेंट ने इस पार्क को माना कि ट्रेडिंग और बिजिनेस कारपोरेशन जो है वह गर्वनमेंट डिपार्टमेंट्स से अलाहवा है और पालियामेंट ने इस चीज को माना और पालियामेंट ने एक ऐक्ट बनाया। अगर पालियामेंट यह महसूस करती है कि गर्वनमेंट डिपार्टमेंट और ट्रेडिंग कारपोरेशन में कोई फर्क नहीं है तो पालियामेंट अपनी मर्जी के मुताबिक जो भी कानून बनायगी उसे हम बड़ी खुशी से कबूल करेंगे।

श्री बी० एन० मंडल : एक वक्त में पार्लियामेंट ने एक कानून बनाया तो वह कानून परमानेंट तो नहीं हो जाता है। एक्सपेरियंस के मुताबिक हम हर साल उसमें चेंजेज करते हैं। अब उसमें चेंज लान की बात हो रही है। आडिटर जनरल का फंक्शन कहाँ तक बढ़ाया जाए, उसकी क्या इयूटी होनी चाहिए उन इयूटीज में जो काम उसको दिया जाता है उसी सिलसिले में आज कहा जाता है कि फूड कारपोरेशन के ऊपर भी उसका कंट्रोल होना चाहिए। हम समझते हैं कि एक मर्तबा चूंकि यह सवाल आया था और उस समय लोगों ने समझा कि नहीं करना चाहिए। उस आधार पर अगर हम आज भी कहें कि चूंकि पहले नहीं किया गया था, इसलिए अब नहीं करना चाहिए तो उसके लिए यह वैलिड आर्गुमेंट नहीं हो सकता है।

SHRI S. S. KOTHARI: When the State Bank Chairman appeared before us, his initial attitude was that probably the Auditor General should not look into the affairs of the State Bank but when we explained to him the idea that the propriety aspect cannot be looked into by the commercial auditor and it would be desirable if Auditor General looked into it, he was pleased to agree that a Government organisation or a bank or any other Corporation should be like an open house. Its books should be open to all. He had no objection. That is the attitude which we expect from a Government Corporation where crores of procurement is involved. Shri Anandam has asked about deterioration, etc. Purchase rate, sale rate and vouchers, etc. are there. But the question is about the propriety aspect.

Who is looking into the propriety aspect and what is your suggestion in this regard?

SHRI SHAH NAWAZ KHAN: The Corporation itself and the internal auditor are looking into it.

SHRI S. S. KOTHARI: It is for the Select Committee to judge whether that is enough.

I may bring to the notice of the witness that it has been brought to our notice that in U.P. when procurement was taking place, the procurement officers at a number of places insisted on the farmers to tender the quantity of food grains which was in excess of the quantity mentioned in the vouchers. Some farmers reported it to me and Chaudhuri Randhir Singh is supporting me and the surplus grains which the farmers were compelled to tender because of the good production, the amount of that surplus grain was probably shared or pocketed by the traders and the inspectors and other people. That is something which has not sufficiently been brought to light.

SHRI SHAH NAWAZ KHAN: I emphatically deny it.

I know during the time when I had been Incharge of these operations, I had been constantly going round the Mandi during the purchasing season and no such case has come to my notice. When did it take place? Was it this season or last season?

SHRI S. S. KOTHARI: This was brought to my notice last year.

Our point is that even with regard to the S.T.C. that is the position. A. G. Looks into the audit. The point is with regard to the propriety aspect. Our feeling is A.G's audit should be there. If you have any objection you may kindly point out.

SHRI MATHRANI: I am grateful for the clarification given by the Hon. Member. We fully agree that there should be control from the point of view of sound administration. But the control should be internal control. If you want to get the work done specially in a commercial undertaking, you must give adequate power, responsibilities and confidence. With that, of course, should be linked control, but as far as possible, the basic control

must be internal control. External control must be limited to broad policy matters and sample checks. It is immaterial whether the C. & A.G. or the commercial auditors do that from that point of view. The experience is that the commercial auditors understand the problems. They point out these defects to us; they have pointed out the losses, infructuous things and so on. They have gone into propriety aspect also.

MR. CHAIRMAN: Why do we take it for granted that the Auditor General's staff or his people will always take that point of view. Will they not grow with the time? It was every time said that the Government man was bad and tries to find mistakes. Government man is also a new man now. He knows that there is a need for change.

SHRI MATHRANI: I mentioned the small incident from my own experience.

MR. CHAIRMAN: When you say that the Auditor General's men will do like this and the private man will not do. That means that the Auditor General's man is different.

SHRI MATHRANI: It is likely that this will happen. It is a tendency. I will accept your judgement in this matter. It is possible that after years, they might change.

SHRI S. KANDAPPAN: When we interviewed Air-India Chairman and other people, they said that they are thoroughly satisfied with the audit conducted by the Auditor General.

SHRI SHAH NAWAZ KHAN: The nature of work in our Corporation is quite different.

SHRI S. S. KOTHARI: Why should you presume that the Auditor General will not be reasonable.

MR. CHAIRMAN: That is what I am talking.

SHRI UMANATH: When you were explaining, you gave some instance about that party to 72 persons, and also the question of going into the market when you had to give price support and to maintain reasonable prices for grains. These are the things which have been put up as grounds for keeping the Auditor General away. But I feel that these are the very grounds which must lead to the position that you yourself must welcome that your Corporation should go under the Auditor General. Now internal auditors raise some objection and you explain properly and they were satisfied. Now the position is that this information goes out to Members of Parliament or to political parties. What is happening—this party to 72 people will become an affair throughout the country and that the money is being squandered by the Food Corporation. But if the Auditor General is satisfied, his report will strengthen your hands. It will help you.

Similarly in cases when you go to the market for purchases or for selling the grains, if you explain the position to the Auditor General and he feels satisfied, no misunderstanding will be created. You can correct your position also on his suggestion where necessary. His intervention shall certainly be helpful to put your things in proper perspective. Don't you think that it will be helpful?

SHRI SHAH NAWAZ KHAN: Operations of the Food Corporation are spread out all over the country, thousands of places. Our apprehensions are that if we are subject to the rigid audit tests, then there will be so many audit objections and we will hardly have any time to do anything else. I will give you examples. During the Rabi movements, we were moving huge quantities of foodgrains from Punjab to Calcutta, where there is huge storage complex. Suddenly, there was a strike in Calcutta. People refused to handle wagons. There was terrible congestion and we had to think about diversion of goods train.

to other destinations and at a short notice our officers had to decide how the specials will move, where they will be received, into which stores, they will be moved etc. etc. All the arrangements were completely upset. Our officers almost over-night made arrangements to hire any sort of storage godowns, wherever these could be found. In such a situations, they cannot follow any rigid procedures.

सभापति महोदय : इतने डिटेल में जाने की जरूरत नहीं है। मैं समझता हूँ कि लोगों का जनरल सवाल यह है कि जो गवर्नमेंट स्पेन्सर्स बीडीज हैं इन में दो चीजें होती हैं। एक तो यह कि इन में अधिकारियों का कोई पर्सनल इंटरेस्ट नहीं होता है, जैसे कि प्राइवेट कारपोरेशन में होता है लोगों को शक होता है कि काम ठीक तरह से चल रहा है या नहीं। यह हम को देखना पड़ेगा। प्राइवेट कारपोरेशन में तो अपना कुछ इंटरेस्ट रहता है, मैनेजिंग डायरेक्टर्स, शेयरहोल्डर्स का इंटरेस्ट रहता है इसलिए जो कमर्शल आडिट है उन के लिए काफी है। लेकिन सरकारी संस्थाओं में कोई पर्सनल इंटरेस्ट नहीं रहता है इसलिए उस में ज्यादातर नेगलेजेंस हो सकती है। यह हम मानते हैं कि इनमें जो कुछ हो रहा है वह जनता के लिए हो रहा है, इसलिए लोगों में यह विश्वास हो कि हमारा कोई नुकसान नहीं है, बल्कि इन संस्थाओं से हम को फायदा मिल रहा है, इस तरह का कॉन्फीडेंस पैदा करने के लिए के क्या इस तरह की जरूरत नहीं है कि आडिटर जनरल द्वारा आडिट किया जाय ? यह सवाल है।

श्री शाह नवाज खान : यदि आडिटर जनरल का स्टॉक और उन का महकमा बदलते हुए हालात के साथ बदलेंगे, अगर उनका नजरिया इस तरह का रहे तो हमें कोई एक्शन नहीं है। लेकिन जो हमारा डर है आडिट ऑब्जेक्शन के बारे में उस से

हम बहुत डरते हैं क्योंकि छोटी छोटी बातों में टांग खिंची जावेगी जिस को बजह से हमारा सारा काम रुक जायगा।

SHRI SHAH NAWAZ KHAN: Parliament had, in all its wisdom, felt in 1964 that audit should be done by an agency other than the Auditor and Comptroller General. If the Parliament now, in its wisdom feel that it should be done by the Comptroller and Auditor General, we welcome it.

SHRI S. KANDAPPAN: Don't you think that times are changing? For example, 15 years ago Government had no commercial transactions. But day by day Government is entering into the commercial fields also. The present attitude of the Government might still go on changing. Why don't you feel that Government might change and might control and give certain directives as to how the audit of the commercial undertakings of the Government should be undertaken?

SHRI SHAH NAWAZ KHAN: I have already stated that the whole audit and accounts position changes according to changes time and according to the commercial activities under the initiative of our officers is not curbed I have no objection to this audit.

SHRI MATHRANI: All we plead for is that our time should not be spent in justifying our actions, subject of course to the ordinary and normal control.

MR. CHAIRMAN: Now, you have referred to Section 20 of the Bill. I would like to know from you whether you will be agreeable to the position that instead of the President or Governor advising the Auditor-General, the President or Governor may give that power to the Auditor-General himself when he feels that, *suo moto*, he should go into your accounts.

SHRI MATHRANI: In sub-clause 2 it is provided that the Auditor General should have the assent of the President.

MR. CHAIRMAN: Now, we have got two angles of approach. Your angle is concerned with the difficulties that are likely to appear if we give it to the Auditor General. But there is also the other side and this other side is that the public sector is growing and the public sector is becoming more autonomous and the Parliamentary control is getting reduced in spite of the fact that we have got a Public Sector Committee, the P.A.C. and other things. But we find that Parliamentary control is gradually deteriorating. So these undertakings must also come under the proper observation of the Members of Parliament so that they could inspire confidence in the people. We find that in the country there is a sort of race going on to run down the public sector. If we continue like this probably it will create difficulties. A public policy is necessary to give confidence to the people that our public enterprise is not as bad as they think.

SHRI MATHRANI: In fact, we have a number of factories which are as well run as those in the private sector.

SHRI M. ANANDAM: Suppose instead of auditing by the Comptroller & Auditor General we suggest that the Comptroller & Auditor General should have a supervisory control?

SHRI MATHRANI: That has my own suggestion, Sir, If I may make a practical suggestion, I would say that (a) audit may be done with the supervision of the Comptroller & Auditor General, (b) if necessary, he can go through our accounts and we can take some directives from him. Our interests are the same as yours.

MR. CHAIRMAN: We are grateful to you for having your valuable suggestions.

(The witnesses then withdrew.)

MINUTES OF THE EVIDENCE GIVEN BEFORE THE JOINT COMMITTEE ON THE COMPTROLLER AND AUDITOR GENERAL'S (DUTIES, POWERS AND CONDITIONS OF SERVICE) BILL, 1969

Wednesday, the 30th September, 1970 at 10.00 hours

PRESENT

Shri S. M. Joshi—Chairman

MEMBERS

Lok Sabha

2. Shri Sonubhau Dagadu Baswant
3. Shrimati Jyotsna Chanda
4. Shri Dinkar Desai
5. Shri Nageshwar Dwivedi
6. Shri J. M. Imam
7. Shri S. S. Kothari
8. Shri Dhuleshwar Meena
9. Shri P. K. Vasudevan Nair
10. Shri D. N. Patodia
11. Shri S. M. Siddayya
12. Shri S. N. Shukla
13. Shri Sant Bux Singh
14. Shri R. Umanath
15. Shri Nagendra Prasad Yadav

Rajya Sabha

16. Shri M. Anandam
17. Shri Anant Prasad Sharma
18. Shri C. D. Pande
19. Shri Sundar Mani Patel
20. Shri Kalyan Roy
21. Shri Thillai Villalan
22. Pandit Bhawaniprasad Tiwari
23. Shri B. N. Mandal
24. Shri V. B. Raju

LEGISLATIVE COUNSEL

1. Shri S. K. Maitra, Joint Secretary and Legislative Counsel, Ministry of Law.
2. Shri A. P. Pandey, Asstt. Legislative Counsel, Ministry of Law.

REPRESENTATIVES OF THE MINISTRY OF FINANCE (DEPARTMENT OF ECONOMIC AFFAIRS)

1. Shri B. Maithreyan, *Joint Secretary (Budget)*.
2. Shri A. G. Krishnan, *Deputy Secretary (Budget)*.

SECRETARIAT

Shri M. C. Chawla—*Deputy Secretary*.

WITNESSES EXAMINED

Shri R. N. Muttoo Chairman, Central Board of Direct Taxes and Additional Secretary to the Government of India.

(The witnesses was called in and he took his seat)

MR. CHAIRMAN: I welcome the Chairman of the Board of Direct Taxes, Mr. Muttoo, and his colleagues. He has got certain suggestions to make in regard to his difficulties arising out of audit. So, when we are doing something to lay down the law on the subject, it would be better if we take his suggestions into consideration. He has given us a memorandum, and I hope all hon. Members have gone through it. I would request him to elucidate any point if he so likes, or else, I would ask hon. Members to put their questions to him if they desire to do so.

SHRI R. N. MUTTOO: I am much obliged to you for giving my Department an opportunity to appear before this Committee, because the CAG is looking to our Audit, and we are grateful that we can say something in this connection. We have submitted a memorandum already, and if any point needs to be clarified, I shall be happy to do so.

SHRI DINKAR DESAI: You have stated here:

"All statutory corporations and financial institutions are assessed to income-tax, but not the Reserve Bank of India".

I think that the nationalised banks will be assessed. So, I would like to know why the Reserve Bank of India also

cannot be assessed. What is the difference between the Reserve Bank and the other nationalised banks? Are you in favour of the Reserve Bank also being assessed?

SHRI MUTTOO: The Secretary, Banking Department, would be in a better position to explain this.

SHRI DINKAR DESAI: What is your view? You can tell me your personal view.

SHRI MUTTOO: We would like to keep the Reserve Bank out, because with due respect, we are ourselves seeking to be kept out of audit.

MR. CHAIRMAN: I am not sure about the constitution of the Reserve Bank. I think it is mainly a controlling department of currency and credit control. It is not a profit-making institution, I believe. When they do not make any profit, where is the question of its being assessed for income-tax? I think that is how it differs from the nationalised banks.

Moreover, this question has been dealt with extensively in the memorandum that we have received from the Secretary, Banking Department, and this has been circulated to the Members of the Committee already. I was just giving my explanation earlier. If hon. Members so like, I would like

to read out from that memorandum. It reads thus:

"Before the said memorandum of July 10 was sent to the Lok Sabha Secretariat, the Department of Banking had studied the said UK Select Committee report on nationalised industries, in so far as the Committee's proceedings and views with respect to the Bank of England are concerned. The UK Select Committee was appointed *inter alia* to examine such activities of the Bank of England as:

(i) activities in the formulation and execution of monetary and financial policy including responsibilities for the management of the gilt-edged money and foreign exchange markets;

(ii) activities as agents of the Treasury in managing the exchange equalisation account and administering exchange control or their activities as a banker to other banks and private customers.

To the best of our knowledge, the UK Government has not yet taken up a formal position on the recommendations of the Select Committee.

Furthermore, it appears from the proceedings of the Select Committee and its recommendation that the Auditor-General, UK, does not audit the Bank of England.

Also, though the Select Committee has recommended *inter alia* that in future the surplus profits of the Bank of England should go into the UK exchequer, as happens to be the law and practice in India, the Select Committee has not recommended that the UK Auditor-General should undertake the audit of the Bank of England. It does not appear to the Department, therefore, that the report of the Select Committee on nationalised industries in UK and on the Bank of England by itself calls for any revision of the office memorandum".

Anyway, that is their explanation.

SHRI DINKAR DESAI: You have stated:

"If the audit scrutiny is confined only to the subsidies paid by the Government, it may not be of much help to the taxation departments."

That may be so, it is considered from the point of view of the Taxation department. But I would like to know whether it would be fair if the audit is extended to the money which is not a subsidy by Government.

SHRI MUTTOO: The view expressed here is *vis-a-vis* the Taxation department, and how far this would help in collecting the correct revenue. We have given our views from that angle only.

SHRI DINKAR DESAI: Supposing it is resisted and it is said that audit cannot be extended to the money which is not given by Government, then in what way will it be inconvenient to you?

SHRI MUTTOO: If there is audit, we shall be able to know the correct income. The audit part is done by the CAG on our behalf as well, and so, we would not then have to go into the details once again, and that is how we shall be saved from the trouble.

SHRI DINKAR DESAI: There is non-Government audit as to how much they have earned, and so, that way that purpose will be served. Why do you want that Government should again audit their accounts even with regard to the money which is not given by Government?

SHRI MUTTOO: The auditors would audit the whole unit as such and not just the subsidy part.

SHRI DINKAR DESAI: There is non-Government audit for that. From that, the Taxation department can find out how much they have earned. Why do you want audit by Government of money which is not given by Government?

SHRI MUTTOO: We want this because our experience of private audit has not been very happy.

SHRI DINKAR DESAI: That is a general statement. Does it apply to every party?

SHRI MUTTOO: I am making this statement *vis-a-vis* audit because even in the past the Taxation Inquiry Commission and other investigation bodies which have been set up did find heavy concealment in cases which had been audited by private parties.

SHRI DINKAR DESAI: Do you think it would be fair to have second audit when the money is not government money?

SHRI MUTTOO: When a piecemeal or partial audit is made we cannot get the full picture. It is better to have full audit so that we can get the complete picture.

SHRI DINKAR DESAI: You can have the complete picture even by non-government audit.

SHRI C. D. PANDE: We should not extend the activities of the Auditor-General to private concerns at all. We in this Committee are concerned with the audit operations of companies and corporations where there is government money. If the LIC or some nationalised bank lends to a private party 20 per cent of the capital, then we are not entitled, neither should it be our effort, to get their accounts audited by the Government of India. Whether your experience is satisfactory or not it is for the income-tax authorities to decide whether there is evasion of tax; it is not your function. The Auditor-General should not go into the accounts merely because some government-controlled funds have been advanced to a private company. If that is so, then there is nothing private in this country. If government money is advanced to a party, your function is over the moment the capital and interest are returned. You have no right to go into their accounts.

SHRI MUTTOO: I am not questioning your views. I am speaking from the point of view of the tax-collecting department. We have viewed it from that little narrow angle.

SHRI C. D. PANDE: But there is the larger question of the functions of the Auditor-General. In what way and up to what extent should he intrude into the affairs of the private companies? For the moment it is not our concern whether it is helpful to the income-tax department or not. The function of this Committee is to ensure that the Auditor-General sees to it that the money of government-owned companies and corporations is properly spent. It is not the function of this committee to find out which company has been lent money by the government agencies and whether they are making profits according to your standard or not so that you may tax them appropriately.

SHRI M. ANANDAM: In the first part of your memorandum you have referred to pre-audit. In the case of assessment what is the type of pre-audit that you envisage?

SHRI MUTTOO: This is not with reference to income-tax department as such; we are referring to a taxpayer's case.

The question is whether there should be pre-audit or post audit.

SHRI M. ANANDAM: Even in the case of an assessee is it always possible to have pre-audit? Audit arises of the profit and loss account and balance sheet as on a particular date. There can be current audit and post audit. So far as an assessee is concerned, there cannot be pre-audit. Pre-audit is done only in the case of government issuance of cheques. How

is pre-audit practicable in the case of private companies?

SHRI MUTTOO: Now what obtains is that after the whole thing is over we come into the picture and say that this thing is wrong. By pre-audit we mean that before the report is finalised and the assessment is finalised they go into the picture and tell us the shortcomings so that we take up the assessment on that basis.

SHRI M. ANANDAM: So, your point is that audit must be completed before an assessment is made. I think it is always being done.

MR. CHAIRMAN: The witness says that in the case of government it is not being done.

SHRI MUTTOO: In our case it is done after the whole thing is over. After the income-tax assessment is over the revenue audit comes into the picture.

SHRI M. ANANDAM: Do you want that income-tax should be determined after audit and not before audit? In other words, no assessment will be made until audit is conducted by the Auditor-General. Do you mean that? If so, are you not giving jurisdiction for assessment to an officer who is not an income-tax officer? The type of audit that is conducted by the CAG is to find out any mistake in fact or law in the matter of assessment. Suppose the profit and loss account has been duly audited by a chartered accountant. The Auditor-General can check up whether the taxes have been properly computed.

SHRI MUTTOO: We want the CAG to look into the thing not from the assessment point of view. We do not want to pass over our duties and responsibilities to the CAG. It is only the audit that we want, that the accounts as prepared are correct and complete.

SHRI M. ANANDAM: That means, all the cases of assesseees must be audited.

SHRI MUTTOO: We are not talking of all the assesseees. It cannot be done.

SHRI M. ANANDAM: There are three types of assesseees—private companies, Government companies and statutory corporations or financial institutions. So far as Government companies or statutory corporations are concerned, under section 619 of the Companies Act, even if there is a private chartered accountant auditing the accounts, it is necessary to have the recommendations of the CAG on that audit. The CAG audits them and makes his own comments. It is after that that it comes to the Income-tax Department for assessment. So, if these two are excluded, the others are all private individuals. I do not think the scope of CAG's audit could extend to the working or financial propriety or whatever it is of the private individuals.

SHRI MUTTOO: If that is so, we have nothing to comment.

SHRI M. ANANDAM: I have with me certain reports of the CAG on the audit of the revenue receipts for the last two or three years. From them I find that there are two types of comments that he has made. One is about the mistake of law and the other about the mistake of fact. Do you think that the CAG could address himself to mistakes in the interpretation of the law? Who should be the final authority to decide when there is a mistake of law?

SHRI MUTTOO: As you very well know, the audit of the Income-tax Department started in 1960. During the last three audits during this period the under-assessment of tax shown were Rs. 7.41 crores in 1967, Rs. 11.8 crores in 1968 and Rs. 10.63 crores in 1969. In the recent report, which is under consideration, it is Rs. 6 crores and-odd. In our Commissioners' conference in 1969 the CAG was good enough to address the

Commissioners and discuss the various points. At that time he had mentioned that the end of Audit was to end audit. I think, it is time that audit was completely removed from the Income-tax Department. The figures, the working of the department and even the report of revenue audit would bear out these facts.

Coming to the specific point about law, this is a very debatable area. Views differ from court to court. Even when there has been disagreement between the CAG and the department, we had to go to a sort of arbitrators; that is, the Ministry of Law. Sometimes they have upheld the CAG's view. That is one side of the picture.

The other side of the picture is that the proceedings before the Income-tax Officers are quasi-judicial and it is not fair to fetter the decision or discretion of Income-tax Officers. The Income-tax Officers should have a free hand.

In this connection I would submit that a number of High Courts, and even the Supreme Court, have interfered when cases have been brought to them that the decision given by the Income-tax Officer was what was dictated to him, if I may say so, by an authority other than his own self. Therefore, we would submit that the CAG should not take up the interpretation of law and, if he must according to the Constitution as has been mentioned by him to the Commissioners and to us on so many occasions that it is his responsibility to look at the assessment from all angles, I would respectfully submit that the interpretation should only have prospective effect and not retrospective effect. We should not be asked to rectify and reopen all the assessments because his views are such-and-such.

SHRI S. S. KOTHARI: That is a very good suggestion.

SHRI M. ANANDAM: Apart from that, assessment being a highly specialised matter and only people in the Income-tax Department know or are generally supposed to know it, the CAG's officer who goes there cannot interpret the law for the purpose of the Income-tax Department.

SHRI MUTTOO: I would defend them there. They do send their officers, when they are appointed, for special training to us. Recently, another useful step that has been taken by the CAG is to exchange officers at high level so that they may have experience of each other's department. It has recently been decided that an Assistant Commissioner and Income-tax Officer would go to his set-up of revenue audit and a senior Deputy Accountant-General and another officer would come to us. So, I cannot say that they are totally ignorant of the thing. But what I submitted was that the question of law was not so easy and simple to decide *vis-a-vis* this little Act of income-tax which has so many different views as you are very well aware.

SHRI M. ANANDAM: You have an internal audit department.

SHRI MUTTOO: It was as a suggestion of the Public Accounts Committee and we are grateful to them. To begin with, it was just looking into the computation of the tax. Now we have enlarged its scope. Now it is also looking into what we call "determining the income". It is more or less on the same pattern as the revenue audit. Previously there were only 72 audit units. Now we have placed Inspecting Assistant Commissioners to look after their working and we are trying that important cases, which we have categorised according to revenue and other factors, be given top priority so that their audit is completed in good time and, if there is a mistake, it does not lapse.

SHRI M. ANANDAM: In view of the internal audit department that you have, do you still want that the CAG should conduct this audit?

SHRI MUTTOO: I mentioned in the beginning that the CAG himself wants that the end of Audit would be the end of audit.

SHRI D. N. PATODIA: Please refer to part 2(1) of your memorandum wherein you mention the system of pre-audit. This particular statement is somewhat confusing. As far as we understand, all the statutory co-operations have got to be audited before they are assessed; their profit and loss account comes to you for assessment. Apart from the regular audit that is already conducted, apart from the fact that the books are sent to you for assessment—which can be done only after the audit is done—do you propose to introduce some other system by the name of pre-audit? Do you suggest some other form of audit?

SHRI MUTTOO: There have been difference of views on points of law. The income-tax department took a certain view and the revenue audit did not agree with that view. It is for this that we had suggested that there should be a discussion. We do not suggest any other form of audit; we meant discussion to resolve legal differences.

SHRI D. N. PATODIA: What do you mean by legal points? Do you want the authorised auditors to go into the legal points?

SHRI MUTTOO: For instance, take development rebate. According to the strict wording of the law it should be such and such. We look to the whole thing from a broader angle and see whether a certain provision had been made for development rebate or not and whether it should be allowed or not.

MR. CHAIRMAN: You suggest that to avoid such difficulties, when decisions on points of law are taken they should be made applicable prospectively, not retrospectively. Will that help?

SHRI MUTTOO: Yes.

MR. CHAIRMAN: You do not want any exemption in regard to facts but only in regard to law?

SHRI MUTTOO: Yes, because so far as arithmetical mistakes and calculations are concerned, we can correct them; there is no question of revision and things like that.

SHRI D. N. PATODIA: Now, the next point. Please refer to para 2(ii) of your memorandum. When the Government are holding more than 50 per cent shares in a concern, it becomes substantially a Government concern because Government are the majority share holders. Would you agree that a company where the Government are majority shareholders cannot be equated with a company where they are not majority shareholders? Secondly, do you suggest that the rights of shareholders should be discriminated? By implication you mean here that the shareholder when it is Government, must have special rights but when it is a private person that special right does not exist. In other words, how do you justify extension of the role of the CAG over those companies where the Government holding is not majority holding and how do you justify discrimination of the rights of shareholders between Government shareholding when it is 25 per cent and private shareholding when it is 25 per cent?

SHRI MUTTOO: Again, I have to say that we have looked at this point from one angle—the advantage to the department. You have viewed it from the interest of the shareholders.

SHRI D. N. PATODIA: What is your advantage?

SHRI MUTTOO: We shall have the advantage as the accounts would be audited by the CAG.

SHRI D. N. PATODIA: The benefit will be there, in that case, even in respect of firms where only one per cent shareholding is by the Government. Would you go to the extent of saying that each and every corporation, firm or business house in India should be audited by the CAG?

SHRI MUTTOO: No.

SHRI D. N. PATODIA: How do you justify the extension of the role of the CAG in respect of companies where the Government shareholding is only 25 per cent?

SHRI MUTTOO: I may not be able to say much on this point.

SHRI D. N. PATODIA: I now come to the third point referred to in para 2(iii). Does your suggestion apply to contractors all over the country?

SHRI MUTTOO: This is with reference to contractors with whom contracts exceeding Rs. 1 crore are entered into by the Government on the basis of negotiations, without calling for tenders.

SHRI D. N. PATODIA: Let me illustrate it further. There is contractor with an annual turn over of Rs. 75 crores. Out of his many contracts, he had six different specific contracts with the Government departments with a turn over of, say, Rs. 8 crores. Would you suggest that in respect of this contractor, his accounts should be audited by the CAG relating to the transactions of only Rs. 8 crores or that the CAG should have the power to go into and audit the entire books of accounts involving Rs. 75 crores of transactions?

SHRI MUTTOO: I think that the CAG should go into the entire working of the contractor—accounts involving Rs. 75 crores.

SHRI D. N. PATODIA: How do you justify extension of CAG's acti-

vities over transactions of the contractor where Government is not involved?

SHRI MUTTOO: It would be in the interest of the Government that the overall picture of the contractor is known because a sort of favour is being shown to him.

SHRI D. N. PATODIA: What do you mean by 'favour'?

SHRI MUTTOO: Giving the contract without calling tenders is a favour.

SHRI D. N. PATODIA: Do you mean to suggest that Government departments are in a position to show favour? You are imputing motives to the Government departments. It is a very serious charge.

SHRI MUTTOO: I am sorry for having used the word 'favour'. It should have been "special condition", i.e. not calling tenders. Since this special condition is being shown, it is necessary that Government has an overall picture of the assets and liabilities of the contractor. Therefore, Government has to look into the entire Rs. 75 crores.

SHRI D. N. PATODIA: Do you mean to suggest that the Government departments, while giving an order without calling for tenders, do not look into the creditability of the contractor and does not examine the pros and cons about price, quality, schedule of delivery, etc.? If the Government departments do all this before giving the order, where is the justification for the CAG to go into the books of the contractor?

SHRI MUTTOO: The CAG plays his own role; he is a sort of help to the Government departments.

SHRI D. N. PATODIA: If the Government has committed a mistake, let them check the Government books of accounts. What is the necessity for going into books of the contractor?

SHRI MUTTOO: It is possible that the contractor might have made a

mistake and CAG must be able to look into his books and find out the mistake.

SHRI D. N. PATODIA: The contractor will always try to squeeze the maximum price from Government. If the Government department is foolish enough to pay Rs. 10 where Rs. 5 will do, why should the contractor be penalised?

SHRI MUTTOO: In such cases, we want that CAG should come in. When CAG looks into the accounts, we get a sort of satisfaction that it has been correctly worked out.

SHRI C. D. PANDE: You want that the CAG should be an instrument of collecting taxes and to play CID for you.

SHRI MUTTOO: I beg to differ.

SHRI D. N. PATODIA: With regard to subsidies, your recommendation is that the powers of the CAG should be extended to audit the accounts of concerns who receive subsidies from Government. Subsidies are in two forms, firstly in items of import and export and secondly in the case of new industries. Subsidy is completely unrelated to the financial performance of the company. It is decided as a matter of policy by the Government to be paid to a particular type of industry. For instance, if subsidy is given to cotton textiles, it is to be given to each and every mill irrespective of its financial results. Simply because subsidy is given, where is the justification or necessity for CAG or anybody else to go into the accounts of that company?

SHRI MUTTOO: Since the Government has given subsidy, it will be necessary for the CAG to look into it.

SHRI D. N. PATODIA: It is not given for consideration of finance. A losing company may not get a subsidy but a company which makes a

larger profit may get subsidy because it is in that category of industry.

SHRI MUTTOO: Since Government gives subsidy, it should be able to look into the accounts.

SHRI D. N. PATODIA: You should justify it. It is not enough to say that you think it should be done. In what way is the financial working of a company going to be involved in the matter of payment of subsidy?

SHRI MUTTOO: Because of the very fact that subsidy is being given, whatever the consideration may be, my opinion is that Government should look into it.

SHRI D. N. PATODIA: Would you agree that subsidy is given not for financial considerations but for other considerations?

SHRI MUTTOO: The question given to me does not contain all these details. I am looking into it from the broader angle. If a company is given subsidy for whatever consideration by the Government, we should look into it.

SHRI D. N. PATODIA: Have you in the course of your long experience come across one instance where subsidy has been given on account of financial considerations?

SHRI MUTTOO: I wonder if I can mention those cases.

SHRI D. N. PATODIA: Subsidy is given for, say, encouraging a particular industry or developing a particular region or for encouraging some small-scale industry, etc.

SHRI MUTTOO: I think, we have come across one or two such cases.

SHRI D. N. PATODIA: So, on the basis of your experience in respect of one or two cases, possibly, in the course of the last 25-30 years, you want to extend the activities of the C.A.G. to this. You will agree that

in respect of those one or two cases, it was a deliberate lapse on the part of the Government and because of their lapse, you want to suggest this.

SHRI MUTTOO: There is no question of lapse. The accounts are not audited merely because there is lapse on somebody's part. It is just to look into the working of the whole thing. I think, when the Government is giving subsidy, they should look into it.

SHRI D. N. PATODIA: How does it help the Income-Tax Department? When the subsidy is received by the Company, the Company shows it as a receipt. How does it help the Income-Tax Department?

SHRI MUTTOO: It helps the Income-Tax Department in the sense that the accounts have been looked into by some Government body on which they can rely.

SHRI D. N. PATODIA: Therefore, your conclusion is that in respect of all matters, whether he is a contractor or an industrialist or a person receiving subsidy, whether he holds 25 per cent or 50 per cent shares, or whatever it is, the accounts should be audited by a Government Department who alone are dependable and nobody else. Is that the conclusion?

SHRI MUTTOO: This is not the conclusion in the way in which it has been put in my mouth.

SHRI V. B. RAJU: You have mentioned about pre-auditing and post-auditing. In some States, I know, the payments to parties are pre-audited by the Accountant General.

SHRI MUTTOO: Not individual payments.

SHRI V. B. RAJU: Before a check is issued, it is pre-audited. This is what the A.G. does in some States.

SHRI MUTTOO: I am not referring to that sort of audit.

SHRI V. B. RAJU: Is it possible to associate the C.A.G. before a contract is concluded or before a subsidy is actually determined? That is the same thing what you call pre-audit. Before you conclude a contract by negotiation, not by tender, in respect of big contracts, could the C.A.G. be associated with it? What is your view about it?

SHRI MUTTOO: As I understand, the role of the C.A.G. does not come at that initial stage.

SHRI V. B. RAJU: Is that possible?

SHRI MUTTOO: I have no experience of that. I can't say whether they can play that role or they would like to play that role.

SHRI V. B. RAJU: Instead of post-auditing, finding faults or mistakes committed afterwards, is it possible to associate the C.A.G. before the contract is concluded?

SHRI MUTTOO: I have nothing to say on that.

SHRI D. N. PATODIA: That is a good suggestion. If a subsidy is to be given, it is only sensible that the Government or the Auditor General or anybody else satisfies themselves before the subsidy is given rather after the subsidy is given. That is something which has to be examined in detail. We have to find out in what form they would do it.

MR. CHAIRMAN: That is a suggestion for us to discuss.

SHRI THILLAI VILLALAN: From your views expressed here, we find that you welcome pre-auditing but it is not in existence. About post-auditing, you say that though it is in existence, it is very difficult because the time-limit for the assessment has been reduced. I would like to know what are the remedial suggestions for rectifying these two positions.

SHRI MUTTOO: As I mentioned earlier, this suggestion was made in view of the legal objections pointed

out to us in two or three important cases involving a large amount of revenue and in one case it was to the extent of Rs. 4 crores. So, it was thought that there should be pre-auditing vis-a-vis the legal aspects involved.

SHRI THILLAI VILLALAN: I do not want the reasons for that. You want pre-auditing which is not in existence. You say there are difficulties in post-auditing which is already there because the time-limit for assessment has been reduced. What are the remedial suggestions for rectifying these two positions?

SHRI MUTTOO: So far as remedial measures are concerned, I do not know how far it would be relevant to mention that, the Administrative Reforms Commission, in their Report on the subject, have mentioned this.

“Differences with regard to interpretations of tax law should be settled between the Audit and the Central Board through consultations in a spirit of a goodwill, understanding and appreciation of their supplementary role in pursuit of common objective.”

SHRI THILLAI VILLALAN: In para 2(i) you have stated.

“Various legal points are raised by the Audit at present.” I would like to know from you as to what are the various legal points. You need not catalogue the various legal points. You can give one or two instances and how can an Income-Tax Officer give verdict on legal points?

SHRI MUTTOO: The assessment is made by the Income-Tax Officer. He has to interpret the law.

SHRI THILLAI VILLALAN: Can you give me one instance of a legal point raised before an Income Tax Officer?

My point is that he is not the competent authority to give verdict on legal points?

SHRI MUTTOO: So far as the word ‘verdict’ is concerned, I do admit he is not the last person but he is the first person to give the verdict. He has to take a decision on all points of law. I would read one case:

“Audit were of the view that the interest paid by two public corporations to the participating governments was not an admissible expenditure for the purpose of computing their taxable income. The Income Tax Officer was of the view that it is what you call ‘admissible expenditure’. The Audit thought it was not. Since the assessment has to be made by the Income Tax Officer, he has to take a decision—what you may call ‘verdict’.”

He has to take the first step. Thereafter, it is up to the party to take it, if it is not satisfied, to the Appellate Asstt. Commissioner or the Tribunal. That is what I meant.

SHRI THILLAI VILLALAN: The first point is that he started the legal battle. He is not giving any verdict or decision on any legal question.

SHRI MUTTOO: He says that these deductions are admissible and he computes the income accordingly. The Audit comes and says that ‘you have done wrong. You should not have given this deduction and the income should have been computed on this line.’

SHRI THILLAI VILLALAN: The next point for your clarification is that in para 2(ii) you have stated.

“.....the C&AG is authorised to direct the manner in which the accounts of such a Government company have to be audited, as also to conduct a supplementary test audit of such company’s accounts.”

What sort of test audit is it?

SHRI MUTTOO: This is what I mentioned from Sec. 619 of the Companies Act.

SHRI THILLAI VILLALAN: Can you explain because I am not able to catch?

SHRI MUTTOO: I won't be able to go into the details. I have just given the relevant thing as it is.

SHRI C. D. PANDE: Your suggestion looks that you want to take the help of the C&AG so that collection of the tax may be better. It is also quite possible at times that if you look at a thing, it may go against your own interest. Suppose you take his help in getting more taxes, are you prepared if the audit says 'It is a valid expenditure.' Will the Income Tax Deptt. say. 'It is valid'? Will it be over-riding your judgment?

SHRI MUTTOO: I have just mentioned the suggestion of the Administrative Reforms Commission that wherever there is a dispute, we have to sit across the table and resolve it. I am glad to say that we are doing it so on many points.

SHRI C. D. PANDE: The desire of the Department is to get more taxes out of the information given by the C&AG?

SHRI MUTTOO: It is not only from the C.A.G.'s general object of the Department to collect every pie, that is due to the Government. We are collecting more and more. We want all assistance.

SHRI C. D. PANDE: It is also likely that when the Audit goes against you, you will again clamour . . .

SHRI MUTTOO: There is no question of going against us by the Audit. It is a question of Audit's views. There is nothing against us. They don't do it. They hold certain views. We hold another view. There is a difference of opinion.

SHRI C. D. PANDE: My view is that either you make it possible that whatever your decision is that is final and we will abide by it. You stick to your decision. They stick to their decision and then you try to resolve the differences. I feel from the very beginning—I have told you—that this Committee is not limited to this type of work. It only wants that the Government-owned companies and corporations should be brought if necessary—it is not always—it is permissible to look into the accounts of the public corporations. Because the LIC has given a loan of Rs. 10 lakhs, it should not mean that its accounts should be gone into by the CAG.

श्री बी० एन० मंडल : जो रिपोर्ट आप ने दाखिल की है, इस रिपोर्ट के पढ़ने से मालूम पड़ता है कि जो कुछ डिफिकल्टीज आप को एज चैयरमेन आफ डाइरेक्ट टैक्सेज हुई हैं, उन को आप ने पांच भागों में बांटा है।

श्री मट्टू : लोक सभा से जो हमारे पास चिट्ठी गई थी उसमें इन पांच विषयों पर हमारे विचार मालूम करने को लिखा गया था। उन्हीं पर मैंने अपने विचार व्यक्त किये हैं।

श्री बी० एन० मंडल : आप ने यह रिकमेन्ड किया है कि कम्पट्रोलर और ऑडिटर जनरल को जूरिसडिक्शन को बढ़ाया जाना चाहिए। जिन कंपनियों में गवर्नमेंट के 25 परसेन्ट या ज्यादा शेयर हों और जिन में गवर्नमेंट का इन्वेस्टमेंट एक करोड़ रुपया हो या कॉन्ट्रोलर वाला बात या सब्सिडी वाली बात, इन सब में सें कम्पट्रोलर और ऑडिटर जनरल की पावर बढ़ाने के लिए आप ने रिकमेन्ड किया है और इस के लिए जो आप का प्राग्रैमेंट है जो कि आप ने इस डिस्कशन के दौरान अभी बनाया है वह यह है कि बोड़ा सा भी जहां गवर्नमेंट का पैसा रहता है, वहां उस रुपये का प्रोटेक्शन होना

चाहिए और कारोबार ठीक से चलता है या नहीं वह इस बात पर निर्भर करेगा कि उस में गवर्नमेंट का कन्ट्रिब्यूशन ठीक हुआ या गलत हुआ।

क्या इस बात को जांचने की जरूरत है या नहीं है ?

श्री मट्टू : अगर गवर्नमेंट ने जो रुपया दिया है वह 51 परसेंट है तो यह देखना जरूरी है कि उस रुपये का सदुपयोग हुआ है या नहीं। इस ख्याल से मैंने यह चीज कही है।

श्री बी० एन० मंडल : सदुपयोग हुआ है या नहीं इसको देखने के लिए पूरे कारोबार को देखना क्या जरूरी नहीं होगा ?

श्री मट्टू : पूरा देखना पड़ेगा। एक भ्रम को देखा जायगा तो पूरी तस्वीर सामने नहीं आएगी।

श्री बी० एन० मंडल : दूसरी कारपोरेशनज का तो आडिट होता है लेकिन रिजर्व बैंक का नहीं। इसका क्या कारण है, कौन सी डिफिकल्टी आती है ?

श्री मट्टू : रिजर्व बैंक का आडिट नहीं होता है और उसमें क्या डिफिकल्टी आती है इसको मैं बयान नहीं कर सकता हूँ। मैंने तो जो स्थिति है बयान की है। होना चाहिए या नहीं होना चाहिए, यह विषय ऐसा है जिस में मैं नहीं जा सकता हूँ, कुछ कह नहीं सकता हूँ।

श्री बी० एन० मंडल : क्या डिफिकल्टी यह नहीं है कि रिजर्व बैंक के मामले में इनकम टैक्स नहीं लगता है जबकि कारपोरेशनज के मामले में लगता है ?

श्री मट्टू : मैं नहीं कह सकता हूँ कि आडिट की क्या डिफिकल्टी है।

श्री बी० एन० मंडल : रिजर्व बैंक की ओर से कुछ एडवांस किया जाता है कारपोरेशनज वगैरह को और वह एडवांस ठीक है या नहीं क्या इसको देखना जरूरी है या नहीं है ? रिजर्व बैंक नहीं चाहता है कि उसकी एक्टिविटीज का आडिट हो, क्या यही कारण नहीं है ?

श्री मट्टू : मैं जानता नहीं तो कारण मैं कैसे बता सकता हूँ। मैं जानता नहीं हूँ तो मैं कैसे कोई राय दे सकता हूँ।

SHRI UMANATH: You are saying, the C&AG must go through the books of the contractor. I welcome that. But while putting a question as to why it should be done, why contractor should be penalised for any fault of the Government or something like that, you have not been very categorical. When there is no tender called for, the House and the country is entitled to know that everything has been done properly because there is no tender. When that aspect is there it has to be gone into. The second aspect is this. Having given contract one should be satisfied that he has fulfilled those conditions. On the other side the Auditor General has got to look into these aspects. The country wants to know whether it is properly done and so the C&AG comes in. Are you having that in mind? Because, unless both these aspects are there, unless you go into both these aspects there cannot be a proper audit. Secondly, whether it is properly given or not, merely looking into the papers of the Government will not be comprehensive, one has to go into the books of the contractor. So, both has got to be done to take a decision on the fairness of the entire transaction which involves both.

SHRI MUTTOO: I am thankful to you for elucidating my stand.

SHRI UMANATH: With regard to C&AG being empowered to go into companies having 51 per cent of Government money you have favoured that. Why should discrimination be

...? Even if it is 25 per cent or 30 per cent it is substantial portion of payer's money. What is the sanction about 51 per cent?

SHRI MUTTOO: There is some activity about 51 per cent—majority voting is with Government.

SHRI UMANATH: Whether it majority or minority, 25 per cent substantial portion. Why should the AG be given power to go into also?

MR. CHAIRMAN: They have already said they have no objection.

SHRI UMANATH: One last point. It is about subsidy. You say, I don't give subsidy to losing concerns, but only profiteering concerns. I don't understand this. Losing concern may require help from Government. They can help the industry to come up. There is no categorical view from you on that point. Will I be correct if I say this? Subsidy is given for promotional activities. The Council and the House must know whether the subsidy given for promotional activities have been used for promotional activities. That is, the money should be utilised for the purpose for which it has been given. Therefore, I want this provision. Am I to take in that way?

SHRI MUTTOO: The suggestion made by me is based on this very thing you are good enough to make

SHRI S. S. KOTHARI: Firstly because I take up and come to the substance proper, Mr. Muttoo has raised a point that subsidy should not be given where a concern is running on profit. Subsidy is given for a particular purpose. It is immaterial whether a concern is making profit or loss. It should be that a concern should perpetually be in loss in order to get subsidy from the Government.

Would the witness kindly tell briefly what have been the points on

which there have been conflicts between the Board and the Auditor General, because I remember once when I met you, you mentioned that there were certain points where the Auditor General was not reasonable and the department was having difficulties.

SHRI MUTTOO: As I have already mentioned, it is mainly the interpretation of law where the difficulty comes. So far as the calculation part is concerned, we do not have any difficulties. The difficulty arises because the interpretation given by the Comptroller and Auditor General is strictly according to the wording and we actually take into account the practical aspect of things. For example development rebate reserve that would need to be credited to a particular account to be opened for that purpose. We have been taking into account the reserve irrespective of the provision made.

SHRI S. S. KOTHARI: You had made a suggestion that where Auditor General gives interpretation different from the Board, then the Auditor General's recommendation should apply with prospective effect and not with retrospective effect.

SHRI MUTTOO: Yes, Sir. There is a difference of opinion. The assessment has already been completed. It is a question of discussion across the table. If I am convinced, I would accept his views, otherwise he would accept my views.

SHRI S. S. KOTHARI: According to page 37 of this report, in the case of assessment order of a company, a sum of Rs. six lakh was added on various grounds to the returned income. While computing the total income, this addition was, however, not taken into account. This action led in short levy of tax. Where such blatant cases are there, do you take any action against the Income-Tax Officers?

SHRI MUTTOO: The point was earlier gone into by the P.A.C. and a similar question was put to us I would like to state that we do examine the cases of this nature. If we find that it is a *malafide* action, we do take action. In fact when such cases are reported to us, there is an enquiry made as who was the Income Tax Officer, the Assistant Commissioner and the Commissioner and to what extent they are responsible.

SHRI S. S. KOTHARI: After the Income Tax Officer has assessed, my feeling is that the computation is left to a subordinate clerk and then it is not checked by any superior authority. The result is that the computations are wrong and the assessee has to run to the department and undergo lot of inconvenience.

SHRI MUTTOO: We have taken steps to improve this shortcoming. We have set up internal audit.

SHRI S. S. KOTHARI: With regard to your comments regarding agreements with contractors and subsidies, would you agree that there should be a prior audit as has been suggested by some of our friends. The Auditor General should audit when the subsidy is given. The agreements above the value of a crore of rupees should be passed by him before the tender is accepted or the contract is given. Instead of making an enquiry after the accounts are over, why the Auditor General should not do it at the stage when the agreement is entered and see that it is done on a fair basis.

SHRI MUTTOO: I would respectfully say that I do not agree with this.

SHRI S. S. KOTHARI: What have you to say about the extension of Auditor General's audit to certain aspects of the Reserve Bank transactions particularly relating to foreign exchange?

SHRI MUTTOO: We have no experience of the Reserve Bank working and hence no comments.

SHRI D. N. PATODIA: You just now said that wherever certain *malafides* on the part of the Income Tax Officers are noticed, the department takes action. May I just have a small clarification from you as to how many cases of this type were found in the course of last two years where department took action and the *malafides* were proved against the Income Tax Officer.

SHRI MUTTOO: I cannot give you this information off-hand, but I can say that we have issued quite a number of warnings, called their explanations and in many cases because of this their promotions have been affected.

SHRI S. S. KOTHARI: With regard to the Auditor General's audit of the Income Tax Department, would you suggest that the Auditor General's enquiry should be restricted to the bigger cases above a certain amount. I would be useful and helpful.

SHRI MUTTOO: I have suggested an end of it.

SHRI S. S. KOTHARI: The Income Tax Officer makes additions sometimes just as a matter of form, like 500, entertainment, travelling one-etc. where there is any basis or otherwise. Has the Board given them instructions. People have to go in appeals.

SHRI MUTTOO: You are aware of the quick disposal scheme under which returns are to be accepted without calling the assessee. In the Taxation Amendment Bill as well we have made a provision that the returns would be accepted with the addition of *prima facie* inadmissible. So the question of this 500 and all that mentioned by you is not correct. So far as this

proposed law is concerned, there is no limit as such. The law is that it would apply to all cases.

†. And regarding the practice, mentioned by you we have been constantly issuing instructions and asking our officers, I mean the Inspecting Assistant Commissioners and Commissioners etc. to look into such cases. They

would look into the appellate orders as well and if they find that some flimsy additions have been made, they do call the officer concerned and tell him to correct his attitude. That is being done.

(The witness then withdrew)

(The Committee then Adjourned)

ANNEXURE

(Vide p. 216 of Evidence given by representative of the Government of Gujarat)

Amount raised/accepted as against total receipts

Year	Total receipts under B.S.T. and C.S.T. Act. (Combined)	No. of cases taken on for audit	No. of cases in which audit is drawn	Percentage of No. of cases in which audit drawn to total No. of cases examined (i.e. col. 4 as related to col. 3)	Amount raised by audit under col. 4	Amount finally accepted and realised out of col. 6	Percentage of amount raised by audit as against total receipts i.e. col. 6 as related to col. 2	Percentage of amount finally accepted as against total receipts i.e. col. 7 as related to col. 2
1	2	3	4	5	6	7	8	9
1967-68	37,31,11,950	18,840	395	2.10%	3,28,076	94,483	0.09%	0.03%
1968-69	43,72,98,236	27,610	349	1.26%	3,26,872	1,02,924	0.07%	0.02%
1969-70	52,63,91,368	19,199	301	1.56%	1,96,655	46,144	0.04%	0.009%

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