

# REPORT

OF THE

**PUBLIC ACCOUNTS COMMITTEE**

ON THE

**ACCOUNTS OF 1930-31**

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**VOLUME II—EVIDENCE**

**PART II**



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## CONTENTS.

	Page.
<b>Evidence—</b>	
Evidence taken at the First Meeting held on Thursday, the 3rd November 1932, at 11 A.M. . . . .	1
Evidence taken at the Second Meeting held on Thursday, the 3rd November 1932, at 2-30 P.M. . . . .	19
Evidence taken at the Third Meeting held on Friday, the 4th November 1932, at 11 A.M. . . . .	33
Evidence taken at the Fourth Meeting held on Friday, the 4th November 1932, at 2-30 P.M. . . . .	51
Evidence taken at the Fifth Meeting held on Saturday, the 5th November 1932, at 11 A.M. . . . .	67

**Evidence taken at the First Meeting of the Public Accounts Committee held on Thursday, the 3rd November 1932, at 11 A.M.**

**PRESENT :**

- |   |                     |
|---|---------------------|
| (1) The Hon'ble Sir ALAN PARSONS, <i>Chairman</i> .               |                     |
| (2) Mr. B. DAS.   | } <i>Members.</i>   |
| (3) Mr. ABDUL MATIN CHAUDHURY.                                    |                     |
| (4) Mr. MUHAMMAD ANWAR-UL-AZIM.                                   |                     |
| (5) Rao Bahadur M. C. RAJAH.                                      |                     |
| (6) Mr. T. N. RAMAKRISHNA REDDI.                                  |                     |
| (7) Kunwer Hajee ISMAIEL ALIKHAN.                                 |                     |
| (8) Mr. S. C. MITRA.  |                     |
| (9) Maulvi Sir MOHAMMAD YAKUB.                                    |                     |
| (10) Mr. J. RAMSAY SCOTT.   |                     |
| (11) Dr. R. D. DALAL.   |                     |
| (12) Sir ERNEST BURDON, Auditor General.                          |                     |
| (13) The Hon'ble Mr. J. B. TAYLOR, Financial Secretary.           |                     |
| (14) Mr. P. R. RAU, Financial Commissioner, Railways.             | } <i>Witnesses.</i> |
| (15) Mr. T. S. SANKARA AIYAR, Director of Finance, Railway Board. |                     |
| (16) Mr. L. S. DEANE, Controller of Railway Accounts.             |                     |
| (17) Mr. A. C. BADENOCH, Deputy Auditor General.                  |                     |
| (18) Mr. B. N. MITRA, Director of Railway Audit.                  |                     |

1. *Chairman* : Before we turn to these accounts, you will remember that when we discussed the ordinary civil accounts the Committee left it to me to settle with the President what procedure should be adopted for formal regularisation of expenditure incurred on what a couple of years later the Committee decided to have been 'new service'. I had a talk with Sir Ibrahim : he said that under the Government of India Act there must be some formal regularisation by the Assembly and that it must be brought to their notice. Of course, it is brought to their notice in our report in which we always say what we consider these services to be. So I have come to an agreement with him that in the ordinary motion that the report be taken into consideration, if there happen to be any new services, we should add "and that the Assembly do approve the expenditure of Rs..... on .....". If necessary, of course, he will put these new items separately. So I think that settles the matter satisfactorily.

I now propose to take up the Railway Accounts, by taking the outstanding items from last year. Item 74. I understand you are promising a report next year, because the rules have been in force only for six months ?

*Mr. Rau.*—Yes.

*Item No. 75.—Piece-work system on Railways.*

2. *Chairman* : As far as I can make out the position is just the same as it was last year—that things have not settled down so much that you think it is desirable to extend the piece-work system ?

*Mr. Rau* : The real point is that from the point of the possibility of the introduction of the piece-work system, things have gone worse instead of better, because of the large reduction of staff. I think till the return of normal conditions it is very difficult to introduce this system.

3. *Chairman* : The point being that if you introduce this system you expect to get better outturn and you will be put to the necessity of reducing more staff still ?

*Mr. Rau* : That is so.

4. *Mr. Scott* : That means that you are now paying more for the work done ?

*Mr. Rau* : It is not quite proved yet that the piece-work system gives real and appreciable economy ; but it is quite certain that if we try to introduce it at the present moment there will be more trouble on our hands in the matter of labour.

*Mr. Scott* : That means that they think they will have to do more work for less money ?

*Chairman* : I am not sure : the labour trouble is that they do not want further reductions of staff.

5. *Mr. Scott* : It is a matter of general policy not to reduce staff any more than possible ?

*Mr. Rau* : I would not say that : we are reducing staff to a considerable extent; the staff of many workshops is already on short time : we do not want to aggravate the position by bringing in new methods of organisation.

*Chairman* : It seems to me it is a question very much of a convenient occasion for introducing the change. Personally I do not think we should do anything to exacerbate the situation further, leading to a greater number of discharges on railways.

*Item No. 76.—New scheme for checking and collecting of tickets on the East Indian Railway (Appendix IV).*

*Mr. S. C. Mitra* : After the abolition of the crew system it is not a live issue now.

*Mr. Rau* : The report of the Chief Operating Superintendent actually shows that there has been a considerable reduction in expenditure and that as a whole the new system is working better than the old system. Paragraph 3 of the report says that there has been an improvement in the excess-fare earnings, while paragraph 4 says that it has secured its object of seeing that the percentage of missing tickets is reduced.

6. *Mr. Chaudhury* : Has the experiment been sufficiently long to pronounce a definite judgment upon it ?

*Mr. Rau* : It has been in force only for a year : I think it has been proved that in the matter of receipts it is not worse than the previous system : while in the matter of expenditure it is definitely better. As regards the percentage of missing tickets there is a marked improvement from 30 to 9 per cent.

*Chairman* : My own view is that it is difficult to express a view. We should merely note that on the East Indian Railway apparently the results have been satisfactory. I do not think we should commit ourselves definitely.

*Item No. 77.—Rules regarding acquisition, custody and relinquishment of Railway lands and buildings.*

7. *Chairman* : As regards these rules, Mr. Mitra, do you consider the rules issued all right ?

*Mr. B. N. Mitra* : Yes.

8. *Chairman* :—What is the position as regards custody and relinquishment of railway lands and buildings !

*Mr. Rau* : The draft rules have been accepted by the Railway Board, but they are now under the consideration of other Departments, e.g., the Education Department which is concerned with lands and the Finance Department. I expect that it will be issued in a very short time. It is really only a codification of the existing rules: no new principles have been introduced.

9. *Chairman* : At any rate you expect to issue them by the end of this year ?

*Mr. Rau* : I think so, certainly.

*Mr. Das* : We would like to know something about buildings.

*Mr. Rau* : I shall be prepared to send a copy of the rules to the Finance Department for circulation to the Committee if required.

10. *Sir Ernest Burdon* : Did you find that you got any useful help at all from the codification of the rules on the military side ?

*Mr. Rau* : Enormous. I think our rules have been framed more or less on the same lines.

*Sir Ernest Burdon* : Because it was very thoroughly done by Mr. Tottenham.

11. *Mr. S. C. Mitra* : These rules will be sent to the Auditor General for opinion ?

*Mr. Badenoch* : I have seen the rules : as far as I can remember they do not really affect the audit department : this is outside the scope of audit altogether.

*Sir Ernest Burdon* : Mr. Mitra, you have actually been through these rules and you regard them as satisfactory ?

*Mr. B. N. Mitra* : Yes.

*Chairman* : I suggest we should say this : that if the Auditor General has no objection, or Mr. Mitra, we will send the rules that have been settled departmentally to Mr. Mitra to see if he has any comments : if he has any comments then he should arrange to put the rules before the Committee : but if Mr. Mitra thinks it is not necessary, then we need not do that.

*Sir Ernest Burdon* : I have no objection at all.

(*The Committee agreed.*)

*Item No. 78.—Presentation of Reports on the working of individual Railways with a Summary and of Balance Sheets, etc.*

12. *Chairman* : A summary of the results as well as the reports of individual railways have been received.

*Mr. Rau* : I should like to say as regards the collieries that we have prepared a sort of provisional balance sheet for 1931-32 and we have incorporated these along with 1930-31 in a separate book which has just been circulated. Next year they will be expedited further : Mr. Deane has promised that he would get the balance sheets for 1932-33 about June or July 1933.

*Item No. 79.—Stores accounting on the East Indian Railway.*

13. *Mr. Das* : As regards the next item—Item 79—it is said “The wishes of the Committee have been noted.” Does that mean it has been accepted or not ?

*Mr. Rau* : In official language it means that we will take all possible steps to put them into effect.

*Mr. Das* : It has been accepted ?

*Mr. Rau* : Yes.

14. *Mr. Das* : Was the promise given last year carried out that the staff should be the same ? I think you have transferred Mr. P. N. Mukherji.

*Mr. Deane* : I wanted to reorganise the methods of stores accounting down there : Mr. Mukherji had already sent in his views.

*Mr. Das* : But I find the same remarks in Mr. Badenoch's note also : he also says the Director of Railway Audit is always a new man every six or three months. We find that both Mr. M. K. Mitra whom we examined thoroughly last year and Mr. Mukherji have gone.

*Sir Ernest Burdon* : I think there is some slight misunderstanding. The arrangement was that Mr. Mukherji should continue to be employed for a certain term—until the end of March I think ; that was carried out. I myself gave an assurance : Mr. Mukherji was kept on for the full period which I thought to be desirable. He was an additional officer on special duty and after that we had to revert to the ordinary arrangements. He was a subordinate officer employed on purely executive duties and his work was finished.

*Mr. Rau* : The present Deputy Chief Accounts Officer is Mr. Seshu Iyer and he is under orders of transfer : but the officer who is actually in charge of Stores Accounts Work has been there for some time : he is Mr. Vidyarthi—he is the man in charge.

*Mr. Badenoch* : He was taken from me specially : he is one of our best men.

*Mr. Rau* : I may add that I had an opportunity of seeing Mr. Martin, the Controller of Stores, the other day and he told me that so far as he was concerned from the administrative point of view the accounts were kept very well and he got all the returns as early as required.

15. *Mr. S. C. Mitra* : The only thing I have to say is this : Mr. M. K. Mitra said that 54 lakhs should be added to the revenue account ; but the Railway Board now decides that the system should be altered and a portion of it, only 32 lakhs, should be added : they have accounted for the other things in different ways.

*Mr. Rau* : There is no question of reversing the decision because the idea was always that all this will go to revenue sooner or later. The only point was that the amount should not be taken into the account in one year and thus disturb the accounts : we have distributed it over two or three years—so that we have met the wishes of the Committee in that matter.

16. *Mr. Scott* : You have taken steps that such things will not recur again ?

*Mr. Rau* : We hope so.

*Item No. 80.—Question of continuance of special rates and concessions for military traffic.*

17. *Chairman* : We pass on now to item 80.

*Mr. Rau* : This question is still under consideration by the Army Department, and I have asked the Army Secretary to tell me whether he can say anything definite about it : he says that he hopes the case will be placed before us officially before very much longer. The Army Department have pointed out that there are definite disadvantages in the change for the Government of India as a whole, because a good percentage—about 1/6th—of the military traffic is carried on Company-managed railways and to that extent their share of surplus profits would mean a definite loss to the Government of India.

*Chairman* : One thing you will have to watch and that is this : the Army have got mechanical transport and you have got to be careful that by putting up the rates against them you do not lose the traffic.

*Mr. Rau* : That is what Mr. Tottenham says : after all, they are our largest customers and I think we ought to be quite clear that we are not sending our customers away by raising rates.

18. *Mr. Das* : Do they get similar concessions in English railways ?

*Chairman* : I do not know about goods : but I think personnel do get : I do not think it is necessary to follow English practice. I think we may express a wish that the matter should be pressed to a conclusion, whatever that conclusion may be.

*Item No. 81.—Presentation in improved form of the table of comparative figures of budget and revised estimates and actuals.*

*Item No. 82.—Presentation of irregularities in a classified form.*

19. *Chairman* : No remarks.

*Item No. 83.—Report on the printing work done in the Railway Publicity Department, etc. (Appendices V and XX).*

20. *Mr. Rau* : We have included in a Supplementary Memorandum information regarding publicity work in other countries. In paragraph 10 (Appendix XX) you will find a comparative statement.

*Chairman* : The effect of this is that we spend on publicity work much less than what other countries spend, but I do not think that we can draw any conclusion from such a comparison.

*Mr. Chaudhury* : It is stated here (Appendix V) that “in the list of newspapers which were given advertisements by the Central Publicity Bureau, no Indian paper was included.....” Does it mean that you are going to exclude all local Indian papers ?

*Mr. Rau* : The local railway administrations, I am sure, did advertise in the local Indian papers. For example, I am sure the M. & S. M. Railway would advertise in the *Hindu* as much as in the *Madras Mail*.

*Mr. Chaudhury* : We generally find more advertisements about railways in the English papers so far as railway publicity is concerned.

*Mr. Rau* : In these matters the railways pay attention to the publicity value of the paper, and it is not merely a question of patronising papers.

21. *Sir Mohammad Yakub* : Can we get a list of the papers in which these advertisements are published ?

*Mr. Rau* : Yes, certainly. But it must be remembered that certain advertisements would be given to certain papers ; for instance, advertisements relating to recruitment of staff, etc., would not be necessarily given to the same papers in which advertisements in regard to railway concessions, etc., would appear.

22. *Mr. Chaudhury* : Can we get an idea about the amount of space devoted in each paper for these railway publicity advertisements as well as the names of the papers together with the amount of money spent ?

*Mr. Rau* : I do not know how much labour this will involve. The money spent depends upon the rates the different papers charge, which again depends on their publicity value.

*Mr. Chaudhury* : We will be able to know why an advertisement is given to a certain paper, and which paper charges higher rates ?

*Mr. Rau* : I will see if it is easily obtainable.

*Chairman* : We will ask for a list of the papers in which advertisements had been published by the various Railways and the number of occasions on which each of those railway advertisements had been inserted, and if it is easily obtainable, also the space taken in each paper.

*Item No. 84.—Presentation of a review of the Appropriation Accounts by the Financial Commissioner.*

*Item No. 85.—Classification of expenditure on traffic surveys as a new service under certain conditions.*

23. *Chairman* : No remarks.

*Item No. 86.—Review of the position regarding Railway Capital expenditure and examination of the policy in the light of recent experience.*

24. *Mr. Das* : You told us in the Assembly there would be no expert Committee ?

*Mr. Rau* : I told you that there would be no committee to inquire into the organisation for control of the Indian Railways, but not as regards retrenchment in expenditure ; I said that we were in correspondence with the Secretary of State about the formation of a committee.

*Mr. Das* : So the committee is still going to come ?

*Chairman* : I think the probability is that we shall have to have a preliminary expert committee of railway people going round and postpone the more general committee. The idea of it is to have some businessmen and some railway men with experience at Home and one or two Members from the Assembly and then form a committee.

*Item No. 87.—Examination of financial results of electrification schemes.*

25. *Chairman* : I don't think we need go much into this. Appendix VI shows what the British Railways have done.

*Mr. S. C. Mitra* : The argument why a comparison is not possible is because the traffic has fallen, but I think we can have some idea about the comparative expenses ?

*Mr. Rau* : We have attempted to do that in our memorandum.

*Item No. 88.—Verification of facts in the Report of the Director of Railway Audit.*

26. *Mr. Das* : It is stated that the Director of Railway Audit should not be confronted with a challenge of his facts for the first time in the Public Accounts Committee and that his statement should contain an agreed statement of the facts in each case. Does it mean that there should be no time limit and the Railway Board should keep mum if a certain point is under discussion for say 3 or 4 years ?

*Mr. Rau* : In this question of the Bombay electrification, I may say that the administration did not have sufficient time to reply to him before.

*Chairman* : The position is that if there is undue delay in replying to the Director of Railway Audit's comments by the Railway Board, it is a matter which he should bring to the notice of the Auditor General, and the Auditor General should bring it to the notice of this Committee.

*Mr. Das* : That must be the unanimous opinion of this Committee, and we must record it.

*Item No. 89.—Report by Railway Department on action taken on cases of irregularity mentioned in Director's Report since its publication.*

27. *Mr. Rau* : We tried to prepare a statement showing the action that had been taken in certain cases of irregularity mentioned in the Director's Report. The idea was that if there were any differences as regards facts we would bring them to the notice of the Committee, but there were none important enough. There were certain differences which were brought to the notice of the Director of Railway Audit, and he took steps to correct the Report. As regards the other important points, we have already circulated various memoranda and there were no points on which any statement was necessary.

*Chairman* : In certain cases where there has been an agreed statement of facts between the Railway Board and the Director of Railway Audit and in which further action was taken by the Railway Board, we should have statements, before the Committee met, showing what further action has been taken by the Railway Board, in order to reduce the time taken by examination of the Railway Board witness in this Committee.

*Item No. 90.—Modified figures of number of cases and amounts of under-charges detected by Audit Department and working of the system of full check-over invoices relating to goods (Appendix X).*

28. *Mr. Das* : Here I object to the language used. In paragraph 2 it says that "the Chief Accounts Officer had not taken any action to get the mistake corrected by the Statutory Audit Staff. Ordinarily the Controller of the Railway Accounts' Office should thereupon have informed the Director of Railway Audit of the correct position, but unfortunately this was not done till December 1931". Then it says that "The Director of Railway Audit has examined the question and agrees that his original paragraph was unsatisfactory . . . . .".

*Mr. Rau* : I believe that was a quotation from the letter.

*Chairman* : I understand the position to be that the paragraph was written, but the Accounts Officer did not bring the fact to the notice of the Audit officer.

Have you any remarks to make, *Mr. Mitra*, on paragraph 4 ? Do you think the position is now satisfactory ?

*Mr. B. N. Mitra* : As far as I know, it is satisfactory.

29. *Mr. S. C. Mitra* : At whose suggestion was the divisional system of accounts taken up ?

*Mr. Deane* : The original idea was that the local traffic accounts should also come up to Delhi and centralised, but we dropped the question on account of the difficulty of the office becoming too unwieldy.

*Item No. 91.—Presentation of cases of short accounting and short collections in station cash offices in a more useful form.*

30. *Chairman* : No remarks.

*Item No. 92.—Making the comments on savings and excesses by the Director of Railway Audit as informative as possible.*

31. *Chairman* : Personally I consider he has made his Report much more interesting.

*Item No. 93.—Report on the effect of the issue of instructions condemning the method of irregularly increasing sanctioned establishments by utilizing coolies, gangmen, etc. (Appendix VIII.)*

32. *Chairman* : The position is that these irregularities are still continuing, but are being reduced. I think what we need say in our Report is that more frequent inspection is required to see that these irregularities are eradicated.

*Mr. Rau* : We have written to the Railways again to ask what disciplinary action was taken. As the Director of Railway Audit has stated, the position has improved on the whole.

*Chairman* : You may perhaps include in your next year's Report as to how you find the position.

*Item No. 94.—Safeguarding of the interests of railways against companies working mineral rights under land acquired by railways.*

33. *Chairman* : No remarks.

*Item No. 95.—Report on the working of the procedure regarding commencement of works and preparation of estimates (Appendix VII).*

34. *Chairman* : Here you made enquiries from the railways about the new procedure and it appears to be working satisfactorily.

*Mr. Rau* : Quite satisfactorily they say.

*Chairman* : Have you any criticisms on this, Sir Ernest ?

*Sir Ernest Burdon* : No criticisms to make at the moment, but I would like to tell the Committee that when these appendices reach the Director of Railway Audit he will go into them and decide for himself whether he is satisfied with the position. Some of these came to us only a short time ago, and that was inevitable. The Director of Railway Audit will bring to the notice of the Railway Board and the Committee any points of sufficient importance on which he feels that he is not satisfied.

*Mr. Chaudhury* : Here there is an expression "In exceptional circumstances". That will give a loophole.

*Mr. Badenoch* : It only relates to cases, so far as I remember, where there is a small branch line in an easy country, with no bridges or culverts.

*Chairman* : I think we can leave it to the operation of the rules, and any defects will be brought to our notice.

*Item No. 96.—Charging of royalty to revenue in the case of collieries.*

35. *Mr. Rau* : Here we propose to charge the royalty and the interest to revenue.

*Chairman* : Has the decision been accepted by all concerned ?

*Mr. Rau* : I do not know whether the B. N. Railway will protest against it.

*Chairman* : I do not think we need comment any more on it.

*Item No. 97.—Reduction of stores balances on Railways to the minimum.*

36. *Chairman* : The recommendation is that the balances of stores should be kept at the minimum amount.

*Mr. Rau* : At the end of 1931-32 it was 13  $\frac{2}{3}$  crores and it has come down at the present moment to less than 13 crores.

*Chairman* : Taken as a whole, I think it is satisfactory.

*Item No. 98.—Report by the Director of Railway Audit regarding particular accounts in the Railway Depreciation Fund.*

37. *Chairman* : We shall take this when we come to the Director of Railway Audit's Report.

*Item No. 99.—Report of the full facts of the case regarding certain adjustments by the Bengal Nagpur Railway of rolling stock against Capital (Appendix IX).*

38. *Chairman* : That gives us an examination of the whole of the B. N. Railway case. Has Mr. Badenoch any remarks to make on what the Railway Board say ?

*Mr. Rau* : This is one of the memoranda that were sent to the Director of Railway Audit late. I think that it will have to be examined by the Government Examiner.

*Chairman* : After having it examined by the Government Examiner, if you do not agree with the Railway Board's conclusions, you will bring it to our notice next year.

*Item No. 100.—Report on the question of accounting of stores returned from works or divisions but not accounted for in the stores ledger on the East Indian Railway (Appendix XII).*

39. *Chairman* : Any remarks to make on Appendix XII ?

*Mr. Rau* : There seems to have been laxity and we have since issued orders prescribing a uniform procedure on all railways regarding the structure of the stock adjustment account. Paragraph 6 says, "Gross surpluses and deficiencies will be worked out separately under the headings 'differences in stock', 'differences in value', and 'miscellaneous items' and a comparison made with the corresponding figures of the previous year. The net result of all surpluses and deficiencies discovered in the year will also be adjusted in the accounts of the year in which they are discovered, except that in exceptional cases, where the amount is very large, the adjustment may be spread over a limited number of years with the approval of the Railway Board".

*Item No. 101.—Debiting of interest charges to Capital outlay after the opening of the Vizagapatam Harbour.*

40. *Chairman* : (a) is accepted. (b) came before me a few days ago. The decision that I have reached about two days ago is entirely in accord with the views of the Committee.

That I think finishes the outstandings.

If the other members of the Committee agree, I propose to take up the Auditor General's letter first, leaving out paragraph 5 which deals with the general question of classification of expenditure—and this is discussed in Chapter III of the Director of Railway Audit's Report. I shall begin with the Auditor General's letter, paragraph 6, go through that, and also go through Chapter IV of the Director of Railway Audit's Report.

*Sir Ernest Burdon* : Might I suggest a slight modification? May we begin with paragraph 2 of my letter which deals with something preliminary. My letter was written on the 28th June 1932 and it is now the beginning of November, and I should like to explain how the situation has altered since then.

*Chairman* : It is said here, "The report of the Director of Railway Audit is intended to be complimentary to the Appropriation Accounts . . .". I can only congratulate my successor.

41. *Sir Ernest Burdon* : That is a misprint. As regards paragraph 2 of my letter, you will see I refer to an important recommendation of the Public Accounts Committee regarding the method of presentation of the Appropriation Accounts and of the results of audit. The Committee had made certain recommendations and these had been accepted, but the recommendations were made at a meeting which was held exceptionally late last year, in fact, only in December, and at that time the Appropriation Accounts were already under preparation in the old form and there was not sufficient time to adopt the new procedure. You will see that in my letter I say, "These suggestions were accepted by the Public Accounts Committee, and the Financial Commissioner, Railways, undertook to give effect to them. They have, however, not been carried out in the presentation of the accounts for 1930-31. The explanation is, I understand, that the last session of the Public Accounts Committee took place unusually late and there was not time to arrange for the very considerable changes involved, the Appropriation Accounts being actually under preparation at the time the recommendations were recorded. It is possible that by the time the Public Accounts Committee meets to discuss the accounts of 1930-31, the Financial Commissioner, Railways, may be able to furnish both a financial review and an analysis of the results of internal check". I personally am very glad that the Financial Commissioner has in the meantime been able to do this. Therefore you have firstly the Appropriation Accounts themselves, secondly, an analysis of the Appropriation Accounts prepared by the Financial Commissioner of Railways, supplemented by a review of financial results, and these three documents taken together form the substantive material which the Public Accounts Committee has available to it. And I think if I may suggest that this is one of the first questions that the Public Accounts Committee may be asked to consider—whether they are satisfied that this gives them the substantive material that they require. There will always be additions required on individual topics,—that will be a different matter,—from year to year, but for the general or permanent form of the presentation of the Appropriation Accounts we have now reached a further stage of development, and I think the time has come for the Public Accounts

Committee to say whether they approve of that. You see in my letter I go on, "But this even if accomplished would not be sufficient compliance with the requirements of principle which have now been laid down", and I say, "The report of the Director of Railway Audit is intended to be complementary to the Appropriation Accounts and the Financial Commissioner's review." This year, owing to certain circumstances which were not really controllable, the documents have not been prepared in the correct order of dates; the Report of the Director of Railway Audit comes first and the Financial Commissioner's reviews come afterwards. But I understand from Mr. Rau that in future years it will be possible to adopt the correct order.

*Mr. Rau* : I hope I shall be in a position to prepare the Financial Commissioner's review at an earlier date than this year, but at the same time I may say if the Committee wants a report like the one I have prepared this year, and if it is supposed to be done personally by the Financial Commissioner, it may not always be possible to have the report very early, because, for instance, if you have a session of the Assembly in November and then again in January to the end of March it will be very difficult for me to find time for writing this report. It is really a question of time.

*Sir Ernest Burdon* : But you agree to the principle that that should be the order ?

*Mr. Rau* : Yes.

*Mr. Badenoch* : We want the Appropriation Accounts for audit of the accounts by the middle of November at the latest.

*Mr. Rau* : There is practically only one chapter in the Report of the Director of Railway Audit, which deals with the subject of the review and if it is possible to postpone that a little bit longer.....

*Mr. Badenoch* : But that is one of the most important chapters.

*Mr. Rau* : I should have a review prepared as soon as the Appropriation Accounts are ready, *i.e.*, compiled by the Controller of Railway Accounts, but it is possible that circumstances might make it impossible for me to do it before March because the whole of January and February is taken up with the railway budget and I think the railway budget must have precedence.

*Mr. Badenoch* : The Auditor General's date for the submission of the Report of the Director of Railway Audit is 1st April, that means that the report has got to be in the press by the first of March. If the Auditor General's date is to be adhered to, I think the latest possible date that the Director of Railway Audit should have the review is 15th January or 1st February.

42. *Chairman* : Can't you put it forward by a month ?

*Sir Ernest Burdon* : Without difficulty.

*Chairman* : I think we can assume that the Public Accounts Committee will not meet at the very earliest before July, and if the procedure which we have had this year of dividing up the various appropriation accounts and the different reports, is followed, I should think we should put Railways last, because if we want the Financial Commissioner's review.....

*Sir Ernest Burdon* : What I aim at is to get the whole of my work on the appropriation accounts both of the Central Government and of the Provincial Governments finished by the first July. That includes transmission to the Secretary of State. That is a very convenient date so far as I am concerned, and that will give time to the Finance Department to scrutinise my letters.

on the appropriation accounts and also to the members of the Public Accounts Committee to read them. It means that the material must come to me by the 15th June after examination by my office.

*Chairman* : So far as the Public Accounts Committee is concerned, we can say quite definitely we shall not normally deal with the Railway portion until probably the end of September. If we said that report of the Director of Railway Audit should go to your office by the 15th May would that give you time ?

*Sir Ernest Burdon* : Yes.

43. *Chairman* : Mr. Badenoch, if your report is due to the Auditor General by the 15th May, could you give the Financial Commissioner time, say up to the 15th April, for sending his report ?

*Mr. Badenoch* : It will be sufficient if the Financial Commissioner can get this review out by the 15th April.

*Chairman* : It will be a reasonable programme for next year. Are you likely to produce this review by the 15th April, so that the Director of Railway Audit can get it out by the 15th May ?

*Mr. Rau* : We shall try. We are very busy till the beginning of March.

*Mr. Badenoch* : Perhaps the Financial Commissioner could send the Director of Railway Audit portions of his review as he prepares them. He could send them in draft form and the Director of Railway Audit could then work on them.

*Mr. Rau* : 15th April ought to be a good date.

*Sir Ernest Burdon* : There are very great difficulties in getting this troublesome material prepared to particular dates. We must do the best we can. We have made a great advance this year.

44. *Chairman* : About the general question of the form of these documents, my own view is that it enables the Committee to take an intelligent view of things. We can accept them, merely adding that we can suggest improvements as we go on.

*Mr. Das* : This is the first year that the Railway Board is co-operating with the Director of Railway Audit.

*Mr. Rau* : As soon as we understood what the Committee wanted we have tried to prepare the material required by them.

*Sir Ernest Burdon* : Paragraph 3 deals with preliminary question of certain improvements we have endeavoured to make. The conclusions of the Committee as regards that may be deferred until they have actually been through the Director of Railway Audit's Report. Paragraph 4 is purely preliminary. Consideration of paragraph 5 will be deferred. So we come on to paragraph 6.

*Paragraph 32—Report of the Director of Railway Audit.*

45. *Chairman* : Paragraph 32.

*Mr. Das* : I wish to endorse Mr. Badenoch's remarks here where he says :

“ If there is no relaxation in the future of the care devoted to control in 1931-32, the period of financial stringency will not be without its benefits.”

I hope the same care will be devoted in future.

*Mr. Rau* : I have written personally to the Agents to find out what exactly is the way in which they control expenditure. Every one of them realises the importance of close co-operation with the Chief Accounts Officer and they are taking his advice on every matter. As a matter of fact, the system of organisation of this control which has been set up would certainly be continued.

*Paragraph 33.*

46. *Chairman* : Paragraph 33 (a). What is the position there ?

*Mr. Rau* : I have written to all the Agents and they realise the importance of using the Chief Accounts Officer as Financial Adviser to the full. I do not understand the point made in the last sentence there.

*Mr. Badenoch* : It is one of the points flung into the report for consideration. I have discussed this question when I went round. I think it is a moot point whether there should be a Deputy Agent as an intermediary between the Agent and the Chief Accounts Officer.

*Mr. Rau* : The Chief Accounts Officer should not encroach on the administrative side.

47. *Chairman* : I do not like the Chief Accounts Officer to be entirely responsible for the Budget. It is for the administrative officer to say what their proposals for expenditure are and to have them vetted by the Chief Accounts Officer. Have you any strong views on that, Mr. Badenoch ?

*Mr. Badenoch* : I cannot say I have. It is a moot point that must come up for decision. The point is this—that for control purposes the Chief Accounts Officer is in command of all the material and he is in a very good position to exercise that control quickly.

*Chairman* : I entirely agree.

*Mr. Choudhury* : The point is that he should not be relegated to an inferior position.

*Chairman* : That is a question of internal arrangement. We cannot lay down that in every case the Agent should go to the Chief Accounts Officer and not to the Deputy Agent.

*Mr. Rau* : It all depends on the personnel. In one case I found that the Deputy Agent knew much more of the expenditure than the Chief Accounts Officer.

48. *Chairman* : It is a moot point and I do not think we will be well advised to make a general recommendation. We shall point out that the Chief Accounts Officer should be fully used as the financial adviser of the administration. We go on to 33 (b).

*Mr. Rau* : Most of the railways have a system by which whenever possible they do reappropriate savings. The question is somewhat difficult.

*Mr. Badenoch* : My point is that if everything is left to the end of the year, there is a tendency to let things drift.

*Mr. Rau* : As regards the question of reappropriation, it is not a formality. If you want to incur further expenditure you must find the money somewhere else. I was just pointing out the difficulties of every head of the office. We have, of course, given very strict instructions to all railways but it is doubtful whether these instructions can always be followed.

*Chairman* : I do not suppose that can always be followed. As the control of expenditure improves, the Agent will be able to see from what head he can reappropriate to meet the extra expenditure and then he can make the necessary reappropriations straightaway.

*Mr. Rau* : We have the same difficulty in the Railway Board. When a question comes up for sanction, we may be certain there will be some savings on all railways taken together but we cannot say under what head there will be savings.

*Chairman* : It is only when you get down to a more detailed control that you can say on what grant there are going to be savings. In individual railways it ought to be easy, because you are getting down to a more manageable proposition.

*Mr. Rau* : In a railway with a divisional organisation, the division is in a better position to control expenditure.

*Chairman* : The smaller the unit you get down to, the more detailed the control will be.

#### *Paragraph 34.*

49. *Chairman* : What is the actual reason for the delay this year ?

*Mr. Rau* : The Chief Accounts Officer took time to find out explanations of the variations. I think matters will improve now.

#### *Paragraph 35.*

50. *Mr. Badenoch* : It is due to a defect of liaison.

*Mr. Rau* : We have given instructions to the Agents and we hope there will be a definite improvement.

*Mr. Deane* : We have got better relations now. The old feeling has gone.

*Chairman* : The liaison between the two is improving and the feeling of separatism is dying away. They are now working in closer co-operation. I think we must record the opinion that the executive must look to the Chief Accounts Officer for help in these matters.

*Mr. Rau* : It is a question of growing confidence.

*Chairman* : I do not think we can do very much more than saying that we entirely agree that what is necessary is a complete liaison between the accounts authorities and the executive authorities.

*Mr. Das* : I think the accounts officer should search for every variation in expenditure and satisfy himself as to the reasons.

*Mr. Rau* : The Chief Accounts Officer, I may say, cannot control expenditure in that sense, but can only bring to the notice of the departmental officer the relevant accounts figures. The money is actually spent by the executive officers and they are responsible for the expenditure. Of course, they are realizing that they are responsible for seeing that these re-appropriations are carried out as soon as possible.

*Chairman* : What we want is to get the departmental officers themselves to watch their expenditure. I think we can express complete concurrence in the remarks of the Director of Railway Audit on that point.

*Mr. Rau* : I think it might assist the Committee if I show them some of the statements the B. B. & C. I. Railway has prepared every month.

51. *Chairman* : Has the Railway Board impressed on the railways the necessity of all departmental officers themselves watching their variations in expenditure ?

*Mr. Rau* : Yes. General instructions have been issued. As a matter of fact, I think practically all railways are taking some sort of action on the recommendations of my report of 1929.

*Mr. Badenoch* : I had seen that monthly report on B. B. & C. I. expenditure and I thought it was extraordinarily good.

*Grant No. 1.—Railway Board—Paragraph 53.*

52. *Mr. Chaudhury* : White paper (Mr. Rau's Review), page 27, paragraph 75. What is the explanation of the excess ?

*Mr. Rau* : You will find the actual figures given in the Appropriation Accounts, page 5 of the big book ; they show exactly where the excess occurred. There was a saving of Rs. 42,000 in the pay of officers and an increase of Rs. 43,000 in the pay of establishments and of Rs. 55,000 under other charges. There were more printing charges, and there was something on new furniture and so on.

*Chairman* : There is a little difference between the various explanations. What were the reasons for the revised estimates ?

*Mr. Rau* : The excess was due to additional printing charges. The additional staff engaged we knew at the time, and we knew we were going to pay Rs. 65,000, and taking all these things into account we thought we would require Rs. 15,000, but we did not take into account the fact that we were likely to require another Rs. 35,000 on account of printing charges. Now the estimates are on a more satisfactory footing. The fact is that the bills came in long after the year was over. We now try to get the press to send in approximate bills as soon as possible.

53. *Chairman* : That I think was taken up as a general question ?

*Mr. Rau* : The position has been improved. They are sending in some sort of reliable estimates.

*Chairman* : The reason then for the difference in the revised estimates was that we did not know the figures of the printing charges till much later.

54. *Mr. Chaudhury* : Pay of establishment : what is the explanation for the excess of Rs. 39,000 ?

*Mr. Rau* : At the time of the Budget we thought we were going to transfer the Department to the Controller of Railway Accounts. That was postponed for six months. If we had done it, the excess would have been very much less, but there was a saving under the head of Pay of Officers.

*Chairman* : I think we can recommend that Grant.

*Grant No. 4.—Working Expenses—Administration.*

*Paragraph 55.*

55. *Mr. Chaudhury* : Page 25 (D. R. A.'s Report). There has been a persistent excess for the last four years ?

*Mr. Rau* : This is really due to contributions from the Provident Fund and gratuities ; it was partly due to gratuities because of the reduction of staff. When framing the revised estimates we did not take into account the fact that large numbers had been admitted to the Provident Fund in the course of the year (the workshops people, for example). As regards the general accusation that there have been excesses, it must be acknowledged that we have tried to keep estimates low so as to keep the expenditure as low as possible. We did not want to ask the Assembly for more than there was a reasonable chance of our requiring, as, if the railways get too much from the Assembly, there is always the possibility of its being spent.

*Chairman* : I know that in the case of certain of these administrative charges we do cut down the estimates of individual railways on the ground that otherwise more money would be spent, and, in fact, to keep the expenditure down by making the control rather tight. That would explain why we found we had to go up for a supplementary grant, but that would not necessarily explain the reason for a serious difference in the revised estimates.

*Mr. Rau* : Here we made a mistake in regard to the Provident Fund and gratuities, which latter we might have anticipated, but we were not quite sure when the retrenchments were going to take place and when the gratuities would be payable. These are payable after a man has left the service on the expiry of leave. That is difficult to estimate. After all, it is one per cent.

*Paragraph 51.*

*Mr. Badenoch* : Paragraph 51 is relevant in this connection.

56. *Mr. Chaudhury* : What have you to say as regards the comment in paragraph 51 that from the appropriation audit point of view the Railway Administrations must take measures to limit expenditure to the amounts voted by the Assembly ?

*Mr. Rau* : We entirely agree with that. Our intention is that the expenditure should be limited to the amounts voted by the Assembly and placed at the disposal of the railways.

*Mr. S. C. Mitra* : Every year there is the persistence of a small excess.

*Chairman* : Is it not possible that part of the difficulty at least is due to the fact that the Railway Board, when they are framing their estimates, naturally deal chiefly with the estimates of all the railways together, and possibly subsequently the distribution of their total estimates over the individual railways may be wrong ?

*Mr. Rau* : Sometimes that does happen. But during the course of the revised estimates we try to correct those original wrong distributions.

It might interest the Committee to know that in 1930-31 the Railway Administrations themselves wanted 14 crores 87 lakhs. We cut that down to 14 crores 67 lakhs. The actual expenditure was slightly more than the original they had asked for. In the next year, 1931-32, they asked for 14 crores 87 lakhs, and we cut that down to 14 crores 67 lakhs, but the actuals were less.

*Chairman* : We entirely agree that what is put down in paragraph 51 that Railway Administrations must take measures to limit their expenditure to the amounts granted or, if that is absolutely impossible, come up and ask for initial grants must be endorsed.

*Mr. Badenoch* : The Director of Railway Audit wants general instructions to be issued to make the position clear. Some of the railways of course definitely explain that the excess is due to cuts by the Railway Board. Of course, that is no explanation.

*Mr. Rau* : We shall issue general instructions and shall make the position quite clear.

#### PARAGRAPH 58.

57. *Mr. Chaudhury* : Further comments, page 25 (D. R. A.'s Report). What is your explanation ?

*Mr. Rau* : That was a mistake and we have set it right.

#### PARAGRAPH 59.

58. *Mr. Rau* : That again is a matter regarding which we have issued instructions. Of course, there have always been a number of misclassifications on the railways.

*Mr. Badenoch* : I cannot say that there is any special increase in the year's accounts covered by the report. I examined the question to see whether there were any notable increases.

*Chairman* : There was no improvement ?

*Mr. Badenoch* : On the whole, it was pretty much the same.

*Mr. Rau* : As a matter of fact, the largest misclassifications occurred under Grant No. 8 where I think a crore of expenditure was budgeted for wrongly. We have asked the railways to see that their estimates are prepared with greater care.

*Mr. Badenoch* : I did not examine the details to see whether some of the misclassifications appeared before. I just examined the total to see whether a general deduction could be drawn as to the efficiency of the classification.

*Chairman* : As it stands in your Report, these happen to be the ones you noticed. These of course will now be cleared up, but if year after year we found no worseness, but no improvement either through inefficiency or carelessness on the part of the budget officers, then the point should be further pursued ?

*Mr. Badenoch* : Of course in regard to all classifications there is always a margin of permissible error, and nothing can be absolutely correct.

*Mr. Deane* : I may say the misclassifications are being reduced.

The Committee then adjourned till 2-30 P.M.

**Evidence taken at the Second Meeting of the Public Accounts Committee  
held on Thursday, the 3rd November 1932, at 2-30 P.M.**

**PRESENT :**

- |   |                     |
|---|---------------------|
| (1) The Hon'ble Sir ALAN PARSONS, <i>Chairman.</i>                |                     |
| (2) Mr. B. DAS.   | } <i>Members</i>    |
| (3) Mr. ABDUL MATIN CHAUDHURY.                                    |                     |
| (4) Mr. MUHAMMAD ANWAR-UL-AZIM.                                   |                     |
| (5) Mr. T. N. RAMAKRISHNA REDDI.                                  |                     |
| (6) Kunwer Hajee ISMAIEL ALIKHAN.                                 |                     |
| (7) Mr. S. C. MITRA.  |                     |
| (8) Maulvi Sir MOHAMMAD YAKUB.                                    |                     |
| (9) Mr. J. RAMSAY SCOT.   |                     |
| (10) Dr. R. D. DALAL.   |                     |
| (11) Sir ERNEST BURDON, Auditor General.                          |                     |
| (12) The Hon'ble Mr. J. B. TAYLOR, Financial Secretary.           |                     |
| (13) Mr. P. R. RAU, Financial Commissioner, Railways.             | } <i>Witnesses.</i> |
| (14) Mr. T. S. SANKARA AIYAR, Director of Finance, Railway Board. |                     |
| (15) Mr. L. S. DEANE, Controller of Railway Accounts.             |                     |
| (16) Mr. A. C. BADENOCH, Deputy Auditor General.                  |                     |
| (17) Mr. B. N. MITRA, Director of Railway Audit.                  |                     |

59. *Mr. Chaudhury* : On page 99 (Appropriation Accounts) under ' Eastern Bengal Railway,' you have got an excess of 1,71 lakhs and it is explained that it is mainly due to reorganisation of the headquarters offices without budget provision, etc.

*Mr. Rau* : I think if you take the total found on page 142, you will find that the Eastern Bengal Railway has saved 1.75 lakhs all told and that means they had a saving elsewhere and that was why they apparently used that sum under the head ' Agency '. It will be observed that the total has not been exceeded. They have got powers of reappropriation and they did not adjust the amount on page 99 but on page 142. On page 142, under voted they had a saving of 1.39 lakhs and under non-voted an excess of .04 lakhs.

*Mr. Chaudhury* : From the explanation it appears that no provision was made for reorganisation.

*Mr. Rau* : Very likely what happened was this. When the budget was framed, probably they had no idea of reorganisation of the Agency department, but they did reorganise during the course of the year. Very likely this amount which was formerly shown under some other head was transferred to this head. On page 109 you will find a saving of 33 lakhs under the head of ' Engineering ' reclassification and it was transferred to ' Agency ' due to the headquarters reorganisation.

*Mr. Chaudhury* : But they must have known it when they appointed a special officer ?

*Mr. Rau* : I believe the officer on special duty was appointed sometime

in 1930-31 and I do not know when it was originally intended by the Eastern Bengal Railway to introduce the hours of employment regulations.

*Chairman* : I do remember that we were out in some lump sum for giving effect to the hours of employment reorganisation. What appears here is that when they found savings under one head they reappropriated it for the reorganisation and they need not have come up for extra grant.

#### GRANT NO. 10.—APPROPRIATION FROM DEPRECIATION FUND.

60. *Chairman* : Now, we come to Demand No. 10—Appropriation from Depreciation Fund. This is referred to in page 27 of the Financial Commissioner's Review and page 30 of Mr. Badenoch's Report.

*Mr. Rau* : At the time of the revised estimate, we go entirely by the expenditure that has already been incurred during the earlier part of the year and we did not find anything to justify any large increase. We thought we were about to have a saving of 25 lakhs excluding adjustments.

*Chairman* : That is to say, it was in effect a miscalculation.

*Mr. Rau* : Yes. 230 lakhs, out of 290 lakhs, represents book adjustments. I have explained this in paragraph 68 of my memorandum (Review).

*Chairman* : It comes to this that the estimation was not good. We will now turn to paragraph 69 of the Report of the Director of Railway Audit. It shows in detail the results of this estimation in each year.

61. *Mr. Badenoch* : The demands for Open Line Capital and Appropriation from the Depreciation Fund should be combined.

*Mr. Rau* : I entirely agree with Mr. Badenoch. I have given my reasons in paragraph 86 (d) of my Memorandum. We should have one grant for all open line works, but the distribution between capital and depreciation fund will be shown in the grant itself and in the Appropriation Accounts. We will show how much of it is renewal and replacement expenditure and how much of it is new Capital.

*Mr. Badenoch* : The difficulty at present is you cannot reappropriate between two grants.

*Mr. Rau* : I have shown in paragraph 66 the variation between the revised budgets if we take the two grants together.

*Mr. Badenoch* : I have done the same for three years.

*Mr. Das* : From the point of view of financial control, it is all right, but from the point of view of estimating how much you will take from replacement to capital and how much to revenue, all these things you will have to estimate at the beginning ?

*Mr. Rau* : Yes. But we cannot control the expenditure from the depreciation fund separately, because it is a fixed figure.

*Chairman* : There is no doubt whatever in my mind that in our estimating on works, we do not think in terms whether it is going to be finally debited to capital or depreciation fund. We only think in terms of the amount of money that we are going to spend. It is much easier to make accurate estimate if we do not think of dividing it up. For instance, the estimating on the two grants combined has not been bad.

*Mr. Badenoch* : I see no difficulty at all about it.

*Mr. Das* : At the same time, there should be some limit on capital expenditure.

*Chairman* : If a limit on capital expenditure is really imposed, it does not very much matter from the financial point of view of the Government of India. The limit on capital expenditure is imposed by what the Government of India decide they can afford for capital expenditure in the year.

62. *Mr. Das* : I am labouring under this difficulty. Supposing a company-managed railway charges to capital a certain sum, then it gets more of the surplus profits.

*Mr. Rau* : It does not affect company-managed railways at all. We maintain a depreciation fund for them. The question of how much goes to capital and how much to depreciation depends upon the contract with the company.

*Chairman* : The actual charge in the accounts of capital or revenue is under fixed rules, the application of which the audit watches very carefully.

*Mr. Badenoch* : Every single estimate is scrutinised by the Government Examiners.

63. *Mr. S. C. Mitra* : What was the original idea of separating it ?

*Mr. Rau* : Because the source from which money was taken was different. Capital represented sums we had to borrow.

*Chairman* : From the finance point of view, it is perfectly logical.

*Mr. Rau* : Instead of being voted under two grants in the Assembly it will be voted under one grant.

64. *Chairman* : I think the Committee should recommend that this should be done and I just want to take it a little further as to when it is to be done, you will have to put it before the Standing Finance Committee. There is no reason why they should take the opposite view. Can you do it in the budget that is to be presented next year ?

*Mr. Rau* : Yes, I think so. I may add that we have considered the programmes on that basis.

*Mr. Badenoch* : I think there will be no difficulty.

*Chairman* : We may recommend that the Committee agrees.

65. *Mr. Chaudhury* : In comparing both the grants, 8 and 10, you compared the budget with the revised estimates, whereas Mr. Badenoch has compared with the final estimates.

*Mr. Rau* : So far as appropriations are concerned, Mr. Badenoch is quite correct. It is a question of how much more money is required by excess vote of the Assembly. When we prepare the revised estimates, we do not always modify the appropriations unless we want more funds from the Assembly. It has been held that we cannot constitutionally ask the Legislative Assembly to reduce a grant once made.

*Mr. Chaudhury* : The revised is more or less a guess.

*Mr. Rau* : So is our budget estimate.

*Mr. Chaudhury* : For our purpose it would be better if we have comparison with the final estimates rather than with the revised.

*Chairman* : We get it in the Report of the Director of Railway Audit. I have not got any fixed opinion. Actually these excesses as a general rule are due to the failure to get our estimates exact.

*Mr. Rau* : The Director of Railway Audit takes account of final grants ; but from the point of view of correctness of estimating, the revised estimate is better. I have explained the position in paragraph 5 (Review). " The main

object of the appropriation accounts is however to compare the actual results of the year with anticipations, particularly with regard to expenditure. The original estimate made before the beginning of the year, the revised estimate prepared near its end, and the actual results are compared in the table below which takes into account both commercial and strategic lines. The revised estimates of expenditure differ from the final appropriations in some cases in view of the practice of not reducing grants originally voted by the Assembly when found in excess of requirements; and though, in the appropriation accounts, it is necessary to take the final appropriations into consideration in order to decide whether an excess grant is necessary, it is more useful for purposes of comparison to take the revised estimate."

66. *Mr. Das* : I should like to know whether you surrender to the Finance Department when you have got over-estimating.

*Mr. Rau* : No; because since the separation of the general from railway finance the Finance Department is not concerned with the revenue portion except with the ways and means portion.

*Chairman* : The ways and means estimate takes into account our revised estimates, not the appropriations at all.

*Mr. Rau* : I have given both the revised and final estimates in paragraph 15.

*Mr. Badenoch* : The Committee must consider it from the appropriation point of view whenever money is voted by the Assembly. *Mr. Rau* gives you some idea as to how his own estimates have worked out. Both the points of view are of interest to the Committee.

67. *Chairman* : First of all, the Committee has to recommend to the Assembly whether to approve an excess grant or not and that must depend upon the final appropriation. It has also got to discover whether there has been excess grant and where it has gone wrong. That is generally a question of faulty estimation. You ought to judge the extent to which the estimation has been faulty and they must have the figures of estimation in front of them. I think we had better continue the practice as it exists at present.

*Mr. Badenoch* : If the difference between the revised estimate and the final grant could be easily explained by the Financial Commissioner, this might be put in.

*Mr. Rau* : I have explained in Demand No. 5.

*Chairman* : On the whole, it will be better to have the revised estimate figures.

*Mr. Rau* : It will be quite easy for me to put in additional column of Appropriation Accounts also.

*Sir Ernest Burdon* : As regards the difference between appropriation and the revised estimate, probably the same explanation fits in.

*Chairman* : Paragraphs 75 and 76 (D. R. A.'s Report).

68. *Mr. Chaudhury* : The accounts of the depreciation fund are far more satisfactory. It is not clear whether the correct procedure is being followed in paragraph 78.

*Mr. Rau* : The Auditor General has sent in a report which appears as Appendix XI. His conclusions are in the last paragraph :

"The results of the examination of the *pro forma* Depreciation fund accounts maintained by the Railway Board may be summed up as follows. It is impossible now to check completely these *pro forma* Depreciation Fund

accounts. Considerable expense would be involved if the examination were pursued further, and in the end, owing to the absence of certain data, the check would be only partial and not complete. It is possible to infer, however, from the examination that has been carried out that after the accounts have been corrected according to the adjustments incorporated in the accounts for 1930-31 the discrepancies that remain are not of great magnitude, not, indeed, as great as was at first apprehended. The past accounts may be accepted as being fairly accurate. Measures have been taken to ensure that in the future the audit of these accounts will be regular and effective."

*Mr. Chaudhury* : Are you satisfied with the present position ?

*Sir Ernest Burdon* : Mr. Mitra directed this enquiry and submitted his report.

*Mr. B. N. Mitra* : I checked these things as far as possible and I am satisfied they are fairly accurate.

#### GRANT NO. 11.—MISCELLANEOUS.

69. *Chairman* : Under Demand No. 11, there is an excess of Rs. 14,960.

*Mr. Rau* : That will not occur in future because the Auditor General has suggested and we have agreed that auxiliary accounts should be abolished. That will enable us to close our actuals earlier. There is no excess in the total expenditure.

#### GRANT NO. 13.—APPROPRIATION FROM THE RESERVE FUND.

*Chairman* : Demand No. 13 : Appropriation from the Reserve Fund. The estimate was fairly accurate.

(The Committee then took up page 16 of the Director of Railway Audit's Report.)

#### PARAGRAPH 41.

70. *Chairman* : There is a lapse in expenditure of about 3½ crores under Capital. What was that due to ?

*Mr. Rau* : Quite a large number of works was stopped in the course of the year owing to financial stringency. In certain works the progress was slower.

#### PARAGRAPHS 42—45.

71. *Chairman* : No remarks.

#### PARAGRAPH 46.

72. *Chairman* : What happened this year after the revised estimates ? Did the traffic fall off a great deal ?

*Mr. Rau* : Our traffic estimates were quite correct. It was the working expenses which went up unexpectedly. There was an increase under repairs and maintenance and miscellaneous expenditure also increased considerably. Moreover, it was partly due to one of those adjustments between railways which this year happened to be a debit, although sometimes it may happen to be a credit.

## PARAGRAPH 47.

73. *Chairman* : It seems there was no improvement in classification in 1930-31. Cannot the position be improved ?

*Mr. Rau* : The only way we can get improvement is by asking the officers to look into these things more carefully. We have to see that each accounts officer realises that expenditure has to be classified properly. We get a list from the Director of Railway Audit of the various misclassifications in each railway and we send that round to all the railways.

*Mr. Badenoch* : We have to be careful about the big amounts and see that there is no misclassification about those.

*Mr. Das* : The Railway Board should lay down the law.

*Mr. Rau* : We have laid down the law but still there are these mistakes.

*Mr. Badenoch* : One method is to get departmental subordinate officers to understand their classification better and get the non-accounts people to understand accounts properly. But there are always a number of cases where there is a genuine doubt about the classification.

## PARAGRAPH 48.

74. *Mr. Rau* : With regard to this I should like to make a statement.

In two of these cases, namely, (a) and (c), the orders in question have not been taken into account in the Appropriation Accounts, and in three, namely, (b), (e) and (f), it is claimed that the actual reappropriation was made by the proper authority before the end of the year, but the actual orders communicating the sanction were issued later. Whether this procedure is technically regular or irregular, and on this point I have no desire to enter into a controversy with the Director of Railway Audit, it is obvious that a reappropriation made so late as at the end of the year is valueless for its essential purpose. The orders issued by the Railway Board last year stating that whenever possible reappropriations should be made as the necessity arises, should reduce these irregularities. As regards (d), it must be explained that the grant is voted by the Assembly for all railways taken together and it is a net grant after taking into account the credit adjustments. If on any particular railway the net result of the transactions during the year is a credit, I do not see much harm in recognising this fact. Since the Railway Board is responsible for redistributing the funds at its disposal so as to see that all the requirements of all railways are met within the total of the sanctioned grant, it follows in my opinion that they are empowered to utilise these credits for the other railways if necessary. Logically I can see no distinction between reducing a grant, say, from 5 lakhs to 1 lakh and reducing it from 5 lakhs to —5 lakhs or from nothing to —5 lakhs ; mathematically a negative quantity is as real as a positive quantity.

*Mr. Badenoch* : If you have a head with no provision against it and you get a credit to that head which you did not expect, how can you utilise that credit ? You reappropriate from that head a provision which was never there at all.

75. *Chairman* : Taking it from the practical point of view, it seems to me to be a general question of the extent to which you should take credit at all in reduction of expenditure. And it seems to me that unless there is good reason credits should always be taken as revenue and not in reduction of expenditure.

*Mr. Rau* : But we must recognise the existence of that credit. We cannot neglect it. We cannot go and ask the Assembly for additional grants when we know these credits are there.

*Mr. Badenoch* : I do not think you are entitled to utilise an unexpected credit.

*Mr. Rau* : But the credit may not be unexpected : it may be only the magnitude of it that is different from anticipations.

*Mr. Badenoch* : In the accounts as they were presented to us it appeared that you took this 16 lakhs credit and utilised it for regularising some excesses elsewhere.

*Mr. Rau* : The fact that it is reduced from nothing to —16 does not make any difference in my opinion.

*Mr. Badenoch* : The general question is whether we should take into account the credits at all.

*Mr. Rau* : Of course, the discussion this year is purely academical because our total grant was 4·90 lakhs and our expenditure was 4·23, and though modification was sanctioned by proper authority, as a matter of fact it did not enter the accounts. This credit was due entirely to a misconception of what ought to have been done. When a new construction was opened the B., B. and C. I. Railway transferred the expenditure from new construction to open line and reduced the expenditure under new construction and added it to the open line capital expenditure. It was unnecessary and we told them they ought not to do it.

*Mr. Badenoch* : This credit did not accrue.

*Mr. Rau* : We told them they ought not to do it, but when there are any credits I do not think you can afford not to recognise them.

*Mr. Badenoch* : The constitutional position is that it is doubtful whether you are entitled to use them for covering extra expenditure which has not been voted.

*Mr. Rau* : I think we might take this up later on. We have raised that question separately.

*Chairman* : The real thing is the extent to which credits should be utilised. That seems to be the practical thing and that we will take up later.

#### PARAGRAPHS 49 AND 50.

*Mr. Rau* : I have dealt with this in paragraph 89 of my report (Review) at page 37.

76. *Chairman* : Mr. Mitra, have you had time to consider Mr. Rau's suggestions for dealing with these credits ?

*Mr. B. N. Mitra* : The matter is under consideration in my office and I expect to reply to the Controller of Railway Accounts shortly.

*Mr. Rau* : On the main question of principle perhaps the Auditor General will be able to give us some views.

*Sir Ernest Burdon* : It is a matter that requires detailed examination in the department.

*Mr. Badenoch* : All that we want is an acceptance of the principle suggested in page 23 that—

“ No controlling officer should be permitted to utilise, in order to increase his spending power, any credit in excess of that allotted to him, nor should the Railway Board itself be empowered to utilise any excesses over the total credits provided for in the various grants. Any deficiency in realised credits should be covered by a supplementary grant.”

*Mr. Rau* : I would not say any credit in excess ; I would say unexpected credits. If there are certain credits, for instance, that come in the ordinary course that we have provided for in our budget, they ought to be taken into credit. Credits depend upon the amount of work done. If you do more work the credits will be more.

*Chairman* : The general thing that I feel is that to the largest extent possible these credits should be taken as receipts. In regard to the various details mentioned here, I think we can well leave it eventually to the final decision of the Auditor General.

#### PARAGRAPH 48.

77. *Sir Ernest Burdon* : As regards paragraph 48 (e), I do not know whether Mr. Rau has got any statement to make about the N. W. R. case.

*Mr. Rau* : As regards that, the N. W. R. claims that the actual reappropriation was made by the proper authority before the close of the year but that actually orders communicating sanction were issued later. It seems to me merely a sort of quibble : it does not make any difference from the point of view of control of expenditure.

*Sir Ernest Burdon* : It is window-dressing in either case and the principle should be that window-dressing should be avoided.

*Mr. Rau* : Quite so.

78. *Sir Ernest Burdon* : What Mr. Rau says applies to (b), (e) and (f) : I take it that instructions will issue in this matter.

*Mr. Rau* : Yes : we have made it clear that reappropriations must be made when necessity arises.

#### PARAGRAPH 52.

79. *Mr. Rau* : As regards this question, we have ourselves considered the question of altering our abstracts entirely and the Controller of Railway Accounts has prepared a revised form which we have asked the Indian Railways Conference Association to go into and let us have their remarks. We would, therefore, prefer to wait till we have settled our revised form before asking these two railways to alter their form.

*Mr. Deane* : The Audit and Accounts Committee of the Association are holding a meeting in January in Calcutta to criticise these revised forms which I have prepared.

*Mr. Das* : I would like to know why of all the company-managed railways only these two have got a different system of accounting.

*Mr. Rau* : It is not a different system of accounting : It is only a different classification of minor detailed heads which has been going on for quite a large number of years : it was, I understand from Mr. Mitra, the older classification : they have not adopted the new classification introduced about ten or twelve years ago.

## GRANT No. 3.—AUDIT, PARAGRAPH 54.

80. *Mr. Rau* : Under this grant there has always been a saving.

*Chairman* : Or do they over-budget ?

*Mr. B. N. Mitra* : It is due to the mix-up with the accounts : we have got so many reserved posts and non-reserved posts and therefore it is difficult to estimate the correct expenditure. Any change in the accounts department has its reaction on the audit side and it is very difficult for us to keep the actuals within the estimates. Either there must be savings or there must be excesses.

81. *Mr. Chaudhury* : Was not the scheme of extended audit given effect to ?

*Mr. Rau* : Not yet.

*Mr. Chaudhury* : Is there any idea of postponing it ?

*Sir Ernest Burdon* : No : As a matter of fact the whole position as regards this is disclosed in Mr. Badenoch's special report which we have here. It covers the whole ground.

## GRANT No. 5.—WORKING EXPENSES—REPAIRS AND MAINTENANCE AND OPERATION.

82. *Mr. Rau* : This is the grant under which there have been these large variations. I have explained it as fully as I can in my memorandum (Review). As a matter of fact, in some cases our original estimate was better than the revised.

*Mr. Scott* : What do you mean by 'write-back' on page 11 of your Review ?

*Mr. Rau* : It was some expenditure booked wrongly under this head and which ought to have been shown under another head.

83. *Mr. Chaudhury* : You note that under Replacements, etc. (page 11 of the Review), the budget provision proved to be excessive by 25 per cent.

*Mr. Rau* : It is due partly to misclassification : but I think there is no doubt that the budget was not particularly good there : there has been a big saving.

## PARAGRAPH 63.

84. *Chairman* : You have apparently reappropriated 12 lakhs to Works, the result being a saving of over 25 lakhs ?

*Mr. Rau* : Reappropriations are made by individual railways and they sometimes think they want more money. This is the total for all the railways.

*Chairman* : 12½ lakhs which should be shown under Replacements has been shown under Miscellaneous : that seems to require some explanation.

*Mr. Deane* : We have called for an explanation.

*Chairman* : There should be continuous watching and trying to see that the classification is right.

## GRANT No. 7—NEW CONSTRUCTIONS.

85. *Mr. Chaudhury* : What do you mean by this "increased expenditure owing to changes in plan, e.g., Calcutta Chord Railway" ? (Page 22 of Review).

*Mr. Rau* : I am not sure, but I think they had to increase the length of the route : or had some difficulty about the land—they had to spend more than they originally anticipated.

86. *Mr. Chaudhury* : What about the Dacca Aricha Railway ?

*Mr. Rau* : It is difficult to say when this will be started : the Waterways Committee of the Bengal Government have advocated large changes in the original plan which might make us reconsider the whole of it entirely : because when we have to provide much more in the nature of waterways, the expenditure will be increased and it may not be profitable at all ; the Bengal Government have now definitely told us that they withdraw their former approval of the scheme until further consideration : the railway cuts right across the natural drainage of the country.

PARAGRAPH 67.

87. *Mr. S. C. Mitra* : Have you anything to say on Mr. Badenoch's comments in this paragraph ?

*Mr. Rau* : The Agent misunderstood the whole position. We have told him that the procedure adopted by him was incorrect and that he should have brought to our notice that adjustments had to be made under the rules during 1930-31—actually it should have been made in 1928-29—and asked us if necessary for an additional grant.

PARAGRAPH 70.

88. *Mr. Rau* : The saving on structural works is due mainly to misclassification. A crore of the saving was due to budgetting under a wrong head : they put it under equipment while it ought to be under structural works.

*Chairman* : That again is a very peculiar misclassification : there must have been something radically wrong with practically all railways.

*Mr. Deane* : We have not got their explanations yet.

*Mr. Rau* : The G. I. P. classified expenditure charged under rolling stock as well under structural works.

*Mr. Das* : That means when a railway becomes State-managed from Company-managed, the control is not so strong as on company-managed railways.

*Chairman* : I do hope you will take strong measures to prevent misclassifications of this size, especially as it seems to me to be absolutely indefensible.

PARAGRAPH 71.

89. *Mr. Das* : How did this mistake arise ?

*Mr. Rau* : I am sure this is not an intentional mistake—the amount involved is only 5,000 rupees. The N. W. R. made a mistake ; but it ought to have been detected in our office here. If our office had dealt with the budget intelligently, they could have detected it.

PARAGRAPH 73.

90. *Mr. Rau* : This question of over-allotment under paragraph 73, I do not think it was any question of over-allotment at all. We mentioned it specifically in our budget memorandum and said that our experience has been that particular locomotives will not be delivered by the close of the year. May I read what we said in our budget memorandum ? (*Reads from the Budget memorandum.*) We have explained the position quite clearly there.

*Chairman* : I think we certainly ought to show that we are going to purchase a hundred locomotives, and we should show to the Assembly what is going to be the cost of those hundred locomotives. It does not seem to me in the case of rolling stock when you make direct deduction that it is on a par with an intended over-allotment for works placing a larger sum at the disposal of those railway administrations and merely making a lump sum deduction.

GRANT No. 9.—APPROPRIATION TO DEPRECIATION FUND.

*Mr. Rau* : I have explained this in paragraph 42 of my note (Review). I agree with Mr. Badenoch that we ought not to have such a large difference ordinarily.

GRANT No. 10.—APPROPRIATION FROM DEPRECIATION FUND.

91. *Mr. Rau* : No comments.

GRANT No. 11.—COMMERCIAL LINES—MISCELLANEOUS.

92. *Mr. Rau* : The Drawing Branch has now been amalgamated with the Central Standards Office, and as regards the Controller of Railway Accounts, I am not very clear myself as to why that office should be shown under Grant No. 1. The Controller of Railway Accounts is quite different from the Railway Board.

*Mr. Badenoch* : Grant No. 11 is an inconvenient miscellaneous thing into which we pitchfork items that we can't put in under other heads.

*Chairman* : Where a particular office, though not a controlling office of the Railway Board, dealt with all railways as a whole and could not be put under any branch, then you put it under miscellaneous head merely because it is a convenient head to put in.

*Mr. Badenoch* : It struck me that Grant No. 1 might incorporate all sorts of headquarter offices dealing with all railways.

*Chairman* : I think we may leave it as it is.

PARAGRAPHS 83—85.

93. *Chairman* : No comments.

PARAGRAPH 87.

94. *Chairman* : The Aden Railway was dismantled in 1930, and no provision was made in 1931-32.

CHAPTER IV OF REPORT.—GENERAL REMARKS.

95. *Sir Ernest Burdon* : With reference to Chapter IV of the Director of Audit's Report, I should just like to make one or two general observations on this subject. I think the Committee will agree with me that it has been very convenient to have the Financial Commissioner for Railways' explanations on Appropriation Audit and the Director of Railway Audit's criticisms on Appropriation Audit both in print before us simultaneously. It seems to me that it has made the consideration of this part of the Appropriation Accounts very much easier, but I should like to explain that in accordance with what

we are doing in the case of Military Accounts if and when the Financial Commissioner, Railways' review of the Appropriation Accounts and Appropriation Audit is prepared first and the Director of Railway Audit's Report comes second, and we have as full an explanation as Mr. Rau has given this year of the variations then it will be possible for the Director of Railway Audit to cut out a great deal of his existing Chapter IV and we will thus be able to avoid a certain amount of duplication and give the Committee all the information they required in a single document. The Director of Railway Audit of course will check all the explanations given by the Financial Commissioner for Railways, and if he finds them adequate, he will not add to them himself, while if there is any point of difference or disagreement, the Director of Railway Audits' observations will be confined to that in the Chapter which deals with this particular section of the subject. So that we hope in course of time still further to simplify the material which is placed before the Public Accounts Committee.

*Chairman* : The Director of Railway Audit will not repeat himself, but if he wishes to bring up further points or slightly different points of view, he will put them in.

PARAGRAPH 7 OF AUDITOR GENERAL'S LETTER, CHAPTER V OF REPORT.

96. *Chairman* : Paragraph 7 of the Auditor General's letter.

*Mr. Badenoch* : I should point out that where possible I was trying to work to the Committee's idea as much as possible. Taking the review method as the proper method, comparisons will be possible in some particular cases. In paragraph 70 of my Report on limitation of audit, etc., I gave a tentative skeleton form and there under one or two heads I said that comparisons might be made.

*Chairman* : I should prefer myself not to tie the Director of Railway Audit down too definitely to any particular method. Where you think that you can really make a reasonable comparison between the results of one year or between one railway and another, then utilise it to bring out the points you want, and it is always extremely helpful to the Committee.

97. *Sir Ernest Burdon* : We have had the same discussion on another account also ; and I think any attempt to lay down a fixed mould rather takes you in the direction of dead statistics. I think the present method of treatment combined with giving discretion to the Director of Railway Audit to modify it in certain ways with reference to the material of the year is a very much better thing.

There is one other point which comes up in connection with this Chapter, and that is the point taken in paragraph 90 of Mr. Rau's review. It raises a general question which has been discussed between Mr. Rau and myself in regard to the railway account and Mr. Macleod and myself in regard to the Army Account. The sentence in paragraph 90, with which I entirely agree, comes towards the end. " But if it is a question of the efficiency or otherwise of the internal check conducted by the Accounts Department it seems to me that material for this can most easily be found out of the results of the independent check conducted by the Railway Audit Branch. " Moreover if you get the results of audit and the classification of irregularities dealt with by the Director of Railway Audit in his Report, and this particular topic excluded from the Report of the Financial Commissioner for Railways, there again you get simplification and a single document dealing with this particular topic. It would clearly in this particular case be quite impossible to exclude this topic from the purview of the Director of Railway Audit. In order to

ensure that the Public Accounts Committee get absolutely reliable and full information in regard to this aspect of the financial administration of Railways, it is, of course, necessary that the Railway Audit Department which only carries out a test audit should have fairly full means of discovering what the standard of the internal check work is. The sort of thing I am referring to is this, the arrangement that we have on the Army side. There we have a convention under which any case of irregularity which is detected by the Accounts Department is communicated at a pretty early stage to the Audit Department so that the Audit Department would be fully in contact with everything that is going on.

*Chairman* : Do you see much objection to this, Mr. Rau ?

*Mr. Rau* : I don't see much objection, but I would emphasise that the most important function of the Accounts Department is the prevention of irregularities and the tendering of financial advice wherever called for.

*Chairman* : It seems to me that it is entirely reasonable that where the Accounts Department have discovered any irregularities there should be available to test audit some easy means of check.

*Mr. Rau* : While on this point, I would like to say on behalf of the administration that the form in which the Appropriation Report has been put in has been extraordinarily helpful to us from the point of view of control of expenditure.

98. *Sir Ernest Burdon* : That being the case, I suggest that the Committee might now definitely agree that the arrangement that is recommended both by Mr. Rau and myself should be adopted and that in future years the preparation and this Chapter V should be the function of the Director of Railway Audit and it should be no part of the duties of the Financial Commissioner of Railways.

*Mr. Das* : I quite agree but I think that Mr. Rau has here thrown a challenge to the Public Accounts Committee in that last paragraph. He says, "I am not quite clear what sort of analysis the Public Accounts Committee had in mind".

*Mr. Rau* : It is not a challenge ; it is a mere confession of ignorance.

*Mr. Das* : If my memory is correct, what we wanted Mr. Rau to do was that he should himself build up case laws and let the audit department build up its case laws. I think Mr. Rau and the Public Accounts Committee are very familiar with each other for the last ten years and I am sure we know each other's minds.

*Mr. Rau* : I was the first Secretary of the Public Accounts Committee.

99. *Chairman* : I think we can agree with Mr. Rau's statement here that this matter as a whole is entirely for the audit department, and you (*to Mr. Badenoch*) will deal with that thing.

That deals with paragraph 91 except one point which I want to raise. Towards the end of this paragraph Mr. Badenoch says that "the Director of Railway Audit may use any irregularity, the facts of which have been accepted by the local railway administration, to illustrate a point, on the understanding that he does not ask either the Public Accounts Committee or the Railway Board to discuss his illustrations as individual irregularities". I have no objection to a general statement of that kind, but where you happen to bring

forward some irregularity which has not yet been entirely dealt with by the Railway Board—you may yourself consider it necessary to look into it further. It is a slight alteration from the convention which was established last year or the year before, and I think we ought not to have this procedure too cut and dried in a matter of this kind.

*Mr. Badenoch* : The idea was that very often the Director of Railway Audit might find it necessary to drive his point home by referring to other instances which he did not think of sufficient individual importance to ask the Committee to notice individually.

*Chairman* : I mean it is for the Committee. Obviously the Committee would ordinarily follow the advice given by the Director of Railway Audit, but in some cases the departmental witnesses might be asked if they happen to have any further explanation of any particular point.

*Mr. Badenoch* : It would have to be recognised that the Financial Commissioner might not come prepared on these particular irregularities.

*Chairman* : Normally I think the Committee will always accept the views of the Director of Railway Audit, but the thing is not worth while pursuing.

The Committee then adjourned till 11 A.M. on Friday, the 4th November, 1932.

**Evidence taken at the Third Meeting of the Public Accounts Committee held  
on Friday, the 4th November 1932, at 11 A. M.**

PRESENT :

- |  |                                  |                          |
|--|----------------------------------|--------------------------|
| <p>(1) The Hon'ble Sir ALAN PARSONS, <i>Chairman</i>.</p> <p>(2) Mr. B. DAS.</p> <p>(3) Mr. ABDUL MATIN CHAUDHURY.</p> <p>(4) Mr. MUHAMMAD ANWAR-UL-AZIM.</p> <p>(5) Rao Bahadur M. C. RAJAH.</p> <p>(6) Mr. T. N. RAMAKRISHNA REDDI.</p> <p>(7) Mr. S. C. MITRA.</p> <p>(8) Maulvi Sir MOHAMMAD YAKUB.</p> <p>(9) Mr. J. RAMSAY SCOTT.</p> <p>(10) Dr. R. D. DALAL.</p> <p>(11) Sir ERNEST BURDON, Auditor General.</p> <p>(12) The Hon'ble Mr. J. B. TAYLOR, Financial Secretary.</p> <p>(13) Mr. P. R. RAU, Financial Commissioner, Railways.</p> <p>(14) Mr. T. S. SANKARA AYYAR, Director of Finance,<br/>Railway Board.</p> <p>(15) Mr. L. S. DEANE, Controller of Railway Accounts.</p> <p>(16) Mr. A. C. BADENOCH, Deputy Auditor General.</p> <p>(17) Mr. B. N. MITRA, Director of Railway Audit.</p> | <p style="font-size: 3em;">}</p> | <p><i>Members.</i></p>   |
|  | <p style="font-size: 3em;">}</p> | <p><i>Witnesses.</i></p> |

PARAGRAPH 92.

100. *Chairman* : We got up to paragraph 92 yesterday. I think paragraph 92 is a fair expression of the Director of Railway Audit's view as to the efficiency of the internal check. Have you anything to say about it ?

*Mr. Rau* : The efficiency of the Railway accounts office as compared with the civil accounts offices is in many respects a matter of opinion. I have myself no personal experience of railway accounts offices but I know the general impression is that the railway audit and accounts offices have not been from the beginning as good as the civil audit and accounts offices, but I believe Mr. Badenoch's opinion is not shared by people who have been in railway accounts offices.

*Mr. Badenoch* : The statement was made more in order to bring out certain factors which excuse it. It is the factors that want to be considered more than the statement itself.

*Mr. S. C. Mitra* : This is a repetition from some of the old remarks made by the Auditor General.

*Sir Ernest Burdon* : This is taken from my evidence before the Railway Retrenchment Committee and it is not an absolutely accurate quotation. What I said was that I had had a considerable amount of evidence laid before me to a certain effect. I have myself no personal experience of railway accounts offices.

*Chairman* : The point is really whether the internal check is effective. We can say that the Committee are glad to note the Director of Railway Audit's opinion as to the general effect of the internal check.

## PARAGRAPH 94 (b).

101. *Chairman*: Have you got anything to say, Mr. Rau, about what Mr. Badenoch says here about the proportion of objectionable expenditure?

*Mr. Rau*: I am not at all sure that this is a safe test in these matters. A single case, for example that of the Bally Bridge, may upset the percentage to a very great extent. It is purely accidental.

*Chairman*: The real point is whether the removal of objections is speeded up now.

*Mr. Rau*: I would not say that there is no room for improvement, but I can say that the position is definitely improving—.

## PARAGRAPH 94 (c).

102. *Chairman*: This is a point raised for the first time here that inspections are not as frequent as they ought to be. The general tenor of Mr. Badenoch's report is that he does not consider that there is sufficient inspection of local offices?

*Mr. Badenoch*: That is what it comes to.

*Mr. Rau*: This year we have tried to arrange a combined programme of inspections on all state-managed railways. It is largely a question of staff. Mr. Deane is looking into the matter and we will take steps to arrange for more frequent inspections.

*Chairman*: Would you agree that this is an important part of the duty of Accounts offices?

*Mr. Rau*: There is no doubt about it.

*Chairman*: I do not know whether it will be possible to have all these local offices inspected once a year. It depends on the type of office. I think we should be satisfied if the inspections take place at fairly frequent intervals. I think the Committee might express an opinion definitely supporting the view of the Director of Railway Audit that inspections at reasonable periods of all railway offices are most desirable.

## PARAGRAPH 94 (d).

103. *Mr. Rau*: I agree with Mr. Badenoch and we have issued special instructions through the Controller of Railway Accounts.

## PARAGRAPH 95 (a).

104. *Chairman*: I think that matters are now being put right.

*Mr. Badenoch*: Matters have now been put right.

*Mr. B. N. Mitra*: The position has now been found to be satisfactory.

## PARAGRAPH 95 (b).

105. *Mr. Badenoch*: The complaint was really about the Bengal and North Western Railway and the Rohilkund and Kumaon Railway.

## PARAGRAPH 95 (c).

106. *Chairman* : What is the position there ?

*Mr. Deane* : The difficulty is due to the system of procedure in connection with muster rolls. A large number of these items are difficult to trace. It was not a question of any loss to Government. They are now attempting a monthly reconciliation.

*Chairman* : The case is now *sub-judice*. We should like to have a clear statement from the Director of Railway Audit that the internal procedure has been put right.

*Mr. Rau* : Steps have already been taken to correct the procedure.

## PARAGRAPH 95 (d).

107. *Mr. Rau* : I am inclined to agree with Mr. Badenoch in this matter. From the cases that have come to my notice I have had reason to be dissatisfied with the work turned out in this office.

## PARAGRAPH 95 (e) (1).

108. *Mr. Rau* : The procedure adopted here had the sanction of higher authority. I think the final debit has made it all right so far as surplus profits are concerned.

*Chairman* : It ought to have been charged to revenue head 11—Miscellaneous until the line is taken up and then transferred to capital.

*Mr. Rau* : It ought to have been debited to Miscellaneous.

*Mr. Badenoch* : Still it was bad accounting even though the railway suffered themselves.

## PARAGRAPH 95 (e) (2).

*First and Second Sub-paragraphs.*

109. *Mr. Rau* : Both the Directors of the B., B. and C. I. and the Railway Board have pointed out to the Agent that they view this matter with great concern. They have asked him to take steps to see that the irregularity does not occur in future.

*Mr. Badenoch* : I have discussed this matter at considerable length with the Government Examiner and the Chief Auditor and we came to the conclusion that everything that can be done has been done. They could not really trace the persons responsible.

*Mr. Rau* : They made efforts to locate the reason for this difference, but they could not find out anything.

110. *Mr. S. C. Mitra* : Why were these things detected so many years afterwards ?

*Mr. Badenoch* : This was a bad feature of the case. It was due to defective review of the suspense balances.

*Third Sub-paragraph.*

111. *Mr. Rau* : This has been already written off. It is a question of bad accounting and probably not of actual loss.

*Mr. Badenoch* : I have gone into this case. You get a tremendous debit against one year which ought to have been adjusted over so many years.

*Mr. Rau* : What really happened was, I imagine, that there were two sets of registers and steps were not taken to reconcile them. They were kept by separate people.

*Mr. B. N. Mitra* : The Chief Auditor has taken steps to prevent it.

*Mr. Rau* : The audit office of the B., B. and C. I. is a good office.

112. *Mr. S. C. Mitra* : Can you assure us that these two sets of ledgers will be reconciled at the end of each year.

*Mr. Rau* : I have not got a definite statement from the Chief Auditor, but I can ask him definitely about it.

*Chairman* : I think it would be well if we impress upon him that he should lay down quite definitely that reconciliation should take place once a year.

*Mr. B. N. Mitra* : It is already in the instructions.

*Mr. Rau* : We have got an explanation from the Chief Auditor as to how this mistake could occur. The chief point is that it is impossible to verify the explanation. He says that the probability is that these were subsequently taken from the detailed purchase ledger account. He says "in coming to this conclusion I have not overlooked the probability that a similar difference would have arisen had double payment been made." He has satisfied himself as far as possible in the absence of relative vouchers to see that there has not been a double payment.

## PARAGRAPH 95 (f).

113. *Chairman* : Any remarks ?

*Mr. Rau* : The Agent, M. & S. M. Railway reports that out of 53 sanctioned working estimates comprising the Marshalling Yard scheme 33 have been thrown forward. In the remaining cases the reports are expected to be closed by the end of August. The Chief Auditor is the auditor of the company himself. He says there has been no loss of money. Efforts are being made to improve the condition of the accounts.

## PARAGRAPH 96.

114. *Chairman* : So far as (a) and (b) are concerned, are there any remarks to make ? I entirely agree that one of the most important duties of the Chief Accounts Officer as financial adviser to the Agent is to suggest methods of increasing revenue. I agree myself with those remarks, but also the auditor might occasionally suggest savings ?

*Mr. Badenoch* : We do, as a matter of fact, but it is not really our business.

## PARAGRAPH 98.

115. *Chairman* : The defects have been removed more or less to the satisfaction of Audit ?

*Mr. B. N. Mitra* : Yes.

## PARAGRAPH 99.

116. *Chairman* : I imagine you agree with what Mr. Badenoch says?

*Mr. Rau* : Certainly.

## PARAGRAPH 100.

117. *Mr. Das* : Is not the B. N. Railway Catering Department a non-paying department, and always running at a loss?

*Mr. Rau* : I have not seen the figures recently, but to the best of my recollection it was running at a loss last year and we have impressed on the Department that they should reduce the expenditure to correspond with receipts.

*Chairman* : Is it a Department in the case of which a profit and loss account would be desirable?

*Mr. Rau* : They are keeping a special account, but they have not included it in their appropriation accounts.

*Mr. Badenoch* : I am afraid you would be overloading your accounts with all sorts of miscellaneous information.

*Chairman* : It is not really, I think, important. They do not want to make a profit but not too much of a loss.

*Mr. Das* : My point is that while a number of Indian vendors pay too much licensing fees, you have to see whether the catering superintendent here draws too heavy a salary.

## PARAGRAPH 101.

118. *Chairman* : Adequate action has been taken?

*Mr. Rau* : Yes.

## PARAGRAPH 102.

*Mr. Rau* : We have sent to all railways a copy of the comments of the Director of Railway Audit.

119. *Chairman* : This was a bad case of collusion between the executives and the accounts authorities and a lot of money was lost. I think the checkers should have been changed sufficiently frequently.

*Mr. Badenoch* : It is very rare.

*Chairman* : It is not a thing you can lay down rules for, but a matter for moving the checkers more frequently.

## PARAGRAPH 103.

120. *Mr. Das* : If the Resident Engineers or the Assistant Engineers are present while payment is made and check the pay receipts, it might be better?

*Mr. Rau* : The rules on the subject do not specifically provide for the maintenance of muster rolls by gazetted officers. There were no real rules on the subject apparently at the time.

*Mr. S. C. Mitra* : Similar cases occur almost every year?

*Mr. Badenoch* : Cases occur no doubt, but I do not know that we can discover them every year.

121. *Chairman* : Is the practice of the G. I. P. now in force on other railways ?

*Mr. Rau* : I believe this is now the practice in all other railways. We shall send a copy of this Committee's report to other railways.

*Mr. Chaudhury* : It was impossible to prove, it is said, that the accounts pay clerk was genuinely to blame, and finally the Chief Auditor accepted that view.

*Mr. Rau* : He was reinstated because they found that it was not possible to prove it.

122. *Mr. Badenoch* : I wish to make one point in this connection. It is not the only case in which the investigation was delayed. The tendency in accounts offices is to delay the departmental investigation because there may be a possibility of a police case coming on, and on the N. W. R., for instance, the investigation has been delayed for two years.

*Mr. Rau* : We have issued definite orders to the Accounts department that they should not delay these investigations merely because a police case might come on or because a case is *sub-judice* and so on.

*Chairman* : Because a case is *sub-judice* one would think it should be still more immediately pursued.

*Mr. Rau* : Yes, you can always take departmental action.

#### PARAGRAPH 104.

123. *Mr. Rau* : It is said more frequent inspections are the remedy here ?

On many occasions we have pointed out the seriousness of falsifying the accounts and of their not representing the facts.

*Mr. Rau* : I entirely agree with the Agent here.

#### PARAGRAPH 105.

124. *Mr. Rau* : Further instructions have been issued on the basis of the Director of Railway Audit's Report on this point.

#### PARAGRAPH 107.

125. *Mr. Rau* : The Railway Board have issued further instructions this year on the report of the Director.

*Chairman* : There is no case for me to go into.

#### PARAGRAPH 110.

126. *Chairman* : 110 was not so bad a case, but it shows a certain amount of carelessness of drafting the agreement.

#### PARAGRAPH 111.

127. *Chairman* : Any further remarks to offer ?

*Mr. Rau* : The B. N. R. have explained that the construction of the bridge was entrusted to Messrs. Tata Iron and Steel Co., at their request in the following circumstances. The washaway of the bridge not only cut off The Tata Iron and Steel Works from these main sources of supply of iron ore but also severely handicapped commercial firms engaged in the export of

myrabolom and timber, which in their turn affected the earnings of the railway; and it was therefore a matter of great importance that through running should be restored at the earliest possible date. The Tata Iron and Steel Company represented that they had the bulk of the material required to rebuild the bridge and also a very considerable amount of spare labour which they could put on to the work without any delay and that they could complete the work much earlier and far more cheaply than any ordinary contractor. The Railway Board considered that the railway administration were justified, in view of the urgency of the case, in arranging for work to be done by this firm without calling for tenders.

The Railway Administration have explained that although certain of the rates agreed upon were made slightly higher than those provided in the open line schedule, this was not mainly in consideration of the rate, but because the schedule rates are intended for ordinary maintenance and repair works and are seldom applicable to special works of the kind in question. After comparing them with the rates actually in force in the neighbourhood of the bridge and being worked to by the contractors of Messrs. Tatas, the Railway Board were satisfied that they were not unreasonable taking into consideration the nature of the work. The Railway Administration state that no contract or agreement was entered into because it is the ordinary practice of that railway to have a work carried out merely on the acceptance by both parties of the rates and specifications to be worked to. The Railway Board consider that this practice is undesirable and is in this instance the direct cause of no penalty being enforceable and also of claims for additional work having to be fortified by extraneous evidence instead of being rejected unless supported by the written order of the officer in charge. This view has been communicated to the Railway Administration who have agreed to introduce the contract system on a very extended scale as soon as the new contract rules at present in the press are issued by the Railway Board. The Railway Administration have not been able to take disciplinary action in this case as the officer at fault has since resigned from the service. The Railway Board, while accepting this explanation, have requested that in future measures should be introduced to ensure that an officer shall not be permitted to resign until either all claims from contractors for works of which he is in charge have been investigated or certificates that no claims exist are obtained.

*Chairman* : In this particular case there may have been good reasons for not calling for tenders but what is I think wrong is their practice of not calling for regular tenders.

#### PARAGRAPH 112.

128. *Mr. Rau* : The Railway Board agree with the Director of Railway Audit that the drafting of the subsidiary agreement was defective. Provision has been made in the new contract rules which are under print with a view to special care being taken to see whether the conditions and specifications of the main contract are applicable to subsidiary contracts and, if not, to make the latter self-sufficient.

#### PARAGRAPH 113.

*Mr. Rau* : (a), (b), (c) and (d).

(a) The Railway Board agree that a new agreement would have been preferable, but it must be added that the old agreement, though a lump sum one, provided for modification, and if each modification had at the time been assessed and agreed upon mutually between the contractor and the railway, the difficulty would not have arisen. The Engineer-in-Chief, who failed in this duty, has, however, left the service.

(b) The Railway Board have informed the Agent of the E. I. R. that in their opinion there was not sufficient reason for delaying the payment of Rs. 70,000 to the contractor which was acknowledged as due to him. The Superintendent of works who was responsible for this has, however, left the service of the railway and no action can be taken against him.

(c) The Railway Board accept the Agent's opinion that neither the Engineer responsible for the project nor the Engineer in charge of the construction can be held to blame for an error in estimating due to paucity of data regarding floods and the unfortunate coincidence that an exceptional flood occurred when the line was under construction and particularly invulnerable.

It was really a question of the exceptional nature of the floods.

129. *Chairman* : What is this work ?

*Mr. Das* : I moved a resolution about floods and I hope the railway administration are taking more steps to collect statistics from year to year.

*Mr. Rau* : It is understood that out of four months' delay, two months was due to the delay in calling for tenders as the Controller of Stores had to make a reference to the Deputy Chief Mechanical Engineer as to his being able to manufacture girders in the railway shops. This, in the opinion of the Railway Board was excessive and the Agent, E. I. Railway, was informed.

The work refers to Chandpur-Mozampur line.

*Mr. Chaudhury* : Are you taking steps to prevent such delays in future ?

*Mr. Rau* : These are matters which ought not to be neglected ; a capable officer ought not to neglect it. We are circulating copies of the reports to every railway and we hope that every officer who takes interest in his work would go through these reports and see what could be done.

130. *Mr. Das* : May I enquire whether the Chief Commissioner, Railways, or the Financial Commissioner, during their tours bring to the notice of the Agents and the Divisional Engineers in their conversation about the defects ?

*Mr. Rau* : We are writing officially to them, we are not confining ourselves to mere conversation.

*Mr. Das* : If you write to them, probably the letter is shelved.

*Mr. Ramakrishna Reddi* : If circulars do not produce results, I do not know if personal conversation would.

131. *Chairman* : Item (b), retention of the sum of Rs. 70,000 by the Railway.

*Mr. Rau* : That was a stupid mistake.

*Chairman* : It is desirable to tell people that because there are certain disputes with the contractors, sums which are admitted to be due should not be retained. The only effect of it would be that if the matter goes to court, we have to pay interest and thus put ourselves in the wrong. I think you might issue instructions to the railways, if you have not already done so.

132. *Mr. Ramsay Scott* : Was part of the delay due to the Indian Stores Department ?

*Mr. Rau* : Part of the delay was due to the delay in calling for tenders by the Controller of Stores, E. I. Railway. He had to make a reference to the Deputy Chief Mechanical Engineer as to his being able to manufacture girders in the railway shops.

*Mr. Das* : I see, the Chief Engineer was not to blame. The real culprit was the Railway Board.

*Mr. Rau* : It was the policy of the Railway Board at the time of trying to see whether lump sum contracts could be naturalized in India.

*Chairman* : As far as I recollect, there was an attempt to see if you could not give a good deal more of our actual works to private contractors in India as is largely done in England, and thereby reduce the cost of railway staff of Engineers and so on. This has not been in my opinion successful with regard to branch lines.

*Mr. Rau* : We discussed this whole question of lump sum grants with the Agents at the half yearly meeting. It has been pointed out that in certain cases, it has definite advantages, but it cannot be applied to all sorts of railway constructions. It was pointed out that even in America where the lump sum contract system was widely prevalent, trouble had arisen in recent years owing to the contractors who generally base their tenders on the railway departmental estimates claiming compensation on the ground of such estimates having misled them and even succeeded in establishing the claim in a court of law.

133. *Chairman* : That takes away the object of the whole lump sum contract system. The chief object of giving the construction of a branch line to lump sum contract is, you know, the line is going to cost so much and you are not likely to go in excess over that figure. Therefore you can easily say whether that line was worth taking up. If, on the other hand, a person is going to arbitration in a court of law to get the amount increased, I do not know whether any advantage is left in this system.

*Mr. Rau* : The practice and tradition on certain railways were found to be to avoid lump sum contracts altogether except in the case of structural, steel and iron works comprising shades for bridges and tanks where uniformly on all railways the lump sum contract has proved eminently suitable. These railways do not see any advantage in trying the lump sum contract system with respect to other works. They consider that the adoption of the lump sum system would easily lead to extra expenditure to the extent of 20 to 25 per cent. above what the various works come under the existing system. The Agent, N. W. R., has expressed the opinion that Indian conditions in general are not as yet favourable to the introduction of the all-in contract system, the main difficulty being that few contracting firms are well equipped with the necessary technical staff and the requisite special tools and plants. In his opinion a beginning may be made in the direction of all-in contract system only in the case of works (1) that cannot be foreseen definitely or accurately (2) which do not require very high technical supervision or expensive machinery on the part of contractors and (3) for which the mass of material and labour are readily available in the vicinity of the work such as important government buildings and sheds.

*Mr. Badenoch* : In writing a Chapter on lump sum contracts, which I eventually cut out of my report, I came to the same conclusion as Mr. Rau, namely, that except for some smaller standard works like sheds, over-bridges and things of that sort, the lump sum contract system was not suitable to railways.

*Chairman* : I doubt whether it is ever likely to be successful for branch lines for the simple reason that there is always a certain amount of variation.

#### PARAGRAPH 114.

*Mr. Rau* : I have nothing to add further to the explanation already given.

134. *Chairman* : In that case, the real thing is they ought to have obtained the previous approval of the Durbar. Where another authority is

responsible for expenditure the railway administration must obtain the agreement of that authority before they start work. We might as well bring this to the notice of the railway administrations.

*Mr. Rau* : The whole question was whether this expenditure was bearable by us under the contract under which we were responsible for all ordinary repairs and maintenance.

*Mr. Das* : It is capital expenditure.

*Mr. Rau* : Because we renewed it by a better standard of track, the Durbar said they would not pay the capital portion. If it had been renewed by the same sort of track, we should have had to bear the renewal expenditure ; here we renewed it by a higher standard without their consent.

*Mr. Chaudhury* : Why should not the Railway bear the whole expense, because it was in the agreement that you should replace like with like. Here you are replacing by steel.

*Mr. Rau* : What happened was that we did not get the consent of the owners of the property for making the improvement.

#### PARAGRAPH 115.

135. *Chairman* : Paragraph 115 is another case of the same kind in which you did not obtain the previous consent.

*Mr. Rau* : We have told the railway administration that in the case reported to us, the Railway Board are not satisfied that the administration acted with due caution in starting the work merely on an enquiry made by the police when there was no definite request for constructing the works.

*Chairman* : I think it is desirable we should issue definite orders to all railway administrations that they must not start work when somebody else has to pay without getting their prior approval.

*Mr. Badenoch* : That is exactly what I want and that is why I brought out all these cases.

136. *Mr. S. C. Mitra* : The next case is very important because it involves a sum of six lakhs and odd.

*Mr. Rau* : That, I think, is not really so bad as it looks. The question has been re-examined by the railway administration and it has been found that the roadway on the original bridge which was constructed in 1865 was provided at the sole cost of the railway and it was therefore difficult to find adequate grounds for requiring the civil authorities to pay for the cost of replacement of that roadway when the bridge was re-girdled solely to meet the requirements of the railway consequent on the introduction of heavier engines. The agent explains that such ordinary stone metalled surface had become expensive to maintain owing to heavy increase in the road traffic during the last 25 years. The cement concrete surface had therefore to be provided to save recurring expenses on future maintenance. The Railway Board have, in view of his explanation, agreed with the Agent that the Local Government could not be asked to share in the cost.

*Mr. Chaudhury* : Did the Railway administration approach the Local Government at all ?

*Mr. Rau* : Apparently, no. The original bridge was built in 1865 and even then the Local Government had not paid anything for it.

137. *Mr. Chaudhury* : When you build a roadway, what is the practice ?

*Mr. Rau* : When you build a new bridge, we ask the Local Government concerned, whether they want us to provide a road bridge in addition because it is easier for both parties to construct the rail and road bridge together and share the cost.

*Chairman* : I do not think the Chief Engineer had any excuse in not going into the matter at all.

*Mr. Rau* : The Chief Engineer was under a misapprehension. He did not know the early history of the bridge. He assumed that the ordinary procedure would apply.

#### PARAGRAPH 116.

138. *Chairman* : Departures from strict terms of agreements.

*Mr. Rau* : We have issued instructions to the railway administrations that the terms of the contract should not be departed from.

*Mr. Ramsay Scott* : If conditions are going to be relaxed, it is very unfair to unsuccessful tenderers.

*Mr. Rau* : After all, the contractor does not relax conditions which are favourable to him.

*Mr. S. C. Mitra* : The circular says, ' ordinarily ', What does it mean ?

*Mr. Rau* : There might be circumstances where the terms of the agreement have to be departed from.

139. *Mr. S. C. Mitra* : Who is to be the judge of the circumstances ?

*Mr. Rau* : The Railway administration, not the Engineer.

*Chairman* : We do have occasions when it is desirable to allow variation and this saves money. Recently I had a case of the carriage of mails to an Indian State where we had to alter the terms of the agreement with the contractor on account of the imposition of heavy tolls by the Durbar. But the difficulty in my experience is that if an Engineer finds that if a good contractor shows him that he has not made as much as he expected on the contract, the Engineer is rather inclined to give that as a sufficient reason in itself for a revision of the terms. The man who takes the contract must take the risks as well as the expected profits.

*Mr. Ramsay Scott* : If you make a contract and if for some reason or other you put up the customs duty, the contractor gets the benefit of the extra customs duty. It is only where you come across a definite difference in the conditions, such as where a contractor comes across stone instead of sand, that a deviation is allowed.

140. *Mr. Das* : The Engineer should not treat the accountants as mere clerks. There should be co-operation between the executive and the audit.

*Mr. Rau* : We have now provided that payments by Engineers should be approved by the Chief Accounts Officer. Before the payment was actually made the case was brought to the notice of the Railway Board, who informed the Agent that they had no objection to the additional payment proposed. The reason for this was that the circumstances were exceptional as the contractor who accepted the original rate has no previous experience of the work and claimed a higher payment immediately after the commencement of the work when he realised the difficulties concerned. The Chief Engineer who personally looked into the question considered that the actual cost of the work, exclusive of any profit, could not have been less than Rs. 2-4-0 per cubic foot.

*Chairman* : I cannot say that that seems to be a very good reason for this particular case.

*Mr. Rau* : The under-estimation of the contractor was excusable in the case of excavation in which the exact nature of the work is ascertainable only after the work is taken in hand. We paid only Rs. 2-4-0 and it was estimated by the Chief Engineer that with Rs. 2-4-0 he could not gain any profit at all.

*Chairman* : The railway is not concerned whether the contractor gets a profit or suffers a loss, nor has the railway anything to do with the fact that the contractor is a new contractor.

*Mr. Rau* : As regards paragraph (b) regarding brick work, though the work in question was under ordinary schedule rate, the Chief Engineer sanctioned additional payment. Nothing is left in writing as to the actual circumstances in which this item was sanctioned. The officers who dealt with the case has left.

*Mr. Das* : The Agent cannot bring forward this excuse that the bricks were cut because they are specially moulded bricks.

141. *Chairman* : This again is a case where the explanation does not seem to be convincing in any way. These are exactly the type of instances where we ought to insist on the thing coming for proper financial advice to see if really there are any circumstances justifying being more liberal in the terms of the contract. Normally these circumstances will be that if you do not give something more the contractor will resile from his contract and it will cost more in the long run.

#### PARAGRAPH 116 (c).

*Mr. Rau* : The Agent has explained that in this particular case it was the intention of both parties to the contract that material should be supplied by the Railway and it was only through oversight that the relevant clause in the agreement was so drafted as to bear an opposite meaning. The Railway Board finally agreed that in the circumstances the withholding of a long-established concession to the contractor would not have been justified. We have told the administration that steps should be taken to impress upon their staff the extreme importance of a careful scrutiny of the draft of every contract prior to its actual execution and that this scrutiny should be conducted by a responsible officer.

142. *Sir Ernest Burdon* : I think you have issued instructions that if it is proposed to vary the terms of an agreement this resulting in additional expenditure, the accounts department is to be consulted as the financial adviser ?

*Mr. Rau* : Yes, we have them in the new contract rules.

*Sir Ernest Burdon* : That in itself ought to mean a definite improvement.

#### PARAGRAPH 117.

*Mr. Rau* : As regards (a), the land in question was relinquished by the B., B. and C. I. Railway to the Government of India in the Railway Department. The Government of Bombay who originally pressed for the relinquishment are not in a position financially to take over the land. The Railway Board rather than sell the land hurriedly in a falling market have been holding on in the hope of obtaining a reasonable price. They have recently accepted an offer for a portion which they consider to be the best obtainable in the circumstances and which it is hoped will stimulate the sale of the remaining portion. In the meantime the payment of taxes and other expenses is unavoidable.

143. *Chairman* : There is not much to be said in this particular case. The case has to wait until the market for land in Bombay improves or until the Bombay Government's finances improve.

*Mr. S. C. Mitra* : At least they should pay these extra taxes.

*Chairman* : The difficulty is that taxes must be paid by the people who retain control of the land and I do not think it is possible to do much in this case.

#### PARAGRAPH 117 (b).

144. *Mr. Rau* : This was the result of the curtailment of the capital programme during the quinquennium ending 1929-30. The employment of additional staff for the preparation of projects on the railway costing annually Rs. 1,69,000 had been sanctioned by the Railway Board. The Agent reports that even before the commencement of the year 1930-31 steps had been taken to reduce the temporary establishment previously sanctioned by transferring men to fill vacancies in the permanent staff, refraining from filling vacancies which occurred in the temporary staff ; and in submitting his original proposals for temporary establishment at a cost of Rs. 1,16,000 he had pointed out that the staff would be employed as actually required, indicating that reduction might be possible. It naturally took time to reorganise the whole establishment and to select men for discharge. The actual expenditure on staff in the year amounted to only Rs. 66,500, and though the Board agree with the Director of Railway Audit that sanction should have been asked for earlier and should have been based on a closer study of actual requirements, they do not feel that this has resulted in any increased expenditure.

#### PARAGRAPH 117 (c).

*Mr. Rau* : The loss seems to have been due partly to a misunderstanding. It appears from the records that the Chief Engineer who was aware of the interpolation of the words " of the working season " thought that he could disregard them under paragraph 7 of the instructions to persons tendering, which purported to inform persons tendering that no erasure or alteration by them in the document will be allowed and any such erasure or alteration will be disregarded. The contractor was, however, not informed definitely that this alteration had been disregarded. On legal opinion being taken it was decided that the condition was binding and consequently no penalty could be levied from the contractor.

The Agent has explained that taking all together the loss was about Rs. 2,000.

145. *Chairman* : It was a case of carelessness and defect in the administrative office. If the tenderer had been informed that the alteration had been disregarded, it would have been all right ; but in the absence of such information nothing could be done.

#### PARAGRAPH 119.

*Mr. Rau* : The question whether any return could be immediately obtained in the shape of rental by leasing out the whole or part of the property under discussion was considered, but in vain. The Agent, however, considers that with the return of normal traffic conditions most of the land can be leased out to plot-holders at a rental which would cover the interest charges on the capital outlay.

146. *Chairman* : Is there any chance at present of getting any income from the land ?

*Mr. Rau* : Nothing ; they have considered that.

147. *Sir Ernest Burdon* : Are you going to hold on to the land ?

*Mr. Rau* : I think so, because with the return of normal traffic conditions they think they would get an adequate rental and they might require it for themselves. The trouble was that they bought this land because they thought there might be expansion afterwards and there might be no room for expansion because most of the neighbouring land had been purchased already by the Port Trust.

#### PARAGRAPH 120.

[*Sub-paragraphs 1 to 4.*]

*Mr. Rau* : These were drafted in consultation with the Railway Board and the second sub-paragraph gives clearly the main causes of the difficulty that has arisen. It is purely a question of funds not being available for strengthening the track and bridges.

As regards sub-paragraph (5), it is not quite correct to say that the credits assumed by the electrification estimates cannot be considered as having been realised. During the past three years 56 engines released on the G. I. P. Railway electrified lines have been transferred for use on other railways, and it is hoped that some more engines will be transferred to the N. W. Railway in 1933-34.

148. *Chairman* : These 45 engines which were ordered were designed not for fast trains but for mixed goods and passenger trains. They were then turned on to the fast services. I should like to know whether you have been able to overcome the defects for the services they are now employed in ?

*Mr. Rau* : Sir Guthrie Russell will be able to say that.

*Chairman* : What actually has happened has been a delay in getting credits on the electrification scheme which was anticipated at the time, owing to the fall of traffic on all railways in India.

*Mr. S. C. Mitra* : I should like to know how many of these 45 engines are now engaged in regular work and who was responsible for these designs ?

*Mr. Rau* : A large number of these locomotives are in regular service and giving satisfactory results.

*Mr. S. C. Mitra* : I want the exact figures.

*Chairman* : On these technical matters we shall ask Sir Guthrie Russell.

#### PARAGRAPH 121.

*Mr. Rau* : The explanation given by the Administration is this. No chemical analysis of the water of the Bori and Murrige rivers was made before the sanction of the schemes in question as there had been temporary water stations at both these rivers from time to time for a number of years in the past and no complaints had then been received on any of those occasions. About the quality of the water obtained from these rivers monthly investigations made from June to December 1931 showed that the water obtained from these rivers during the period was definitely more suitable for loco. purposes than that from the old wells. The new schemes are certainly a necessity, as pointed out by the Administration, if we take into consideration the normal growth of traffic and realise the present sub-normal conditions.

The Agent further points out that if traffic conditions demand in future material addition to the present requirements of water, the extra need can be met by making the water from these rivers definitely superior to the water from the wells during the whole of the year by provision of water softeners. It may also be mentioned that there appears to be no other possibility of increasing the water supply when necessary.

*Mr. Badenoch* : The only question is whether sufficient investigation was made.

149. *Chairman* : The question is whether chemical analysis would have proved that this water was not suitable for locomotive purposes.

*Mr. Rau* : The answer is that they must have water and there is no other method of getting it if traffic improves. Therefore you have to use softeners during five months in the year. It adds a little to the cost.

#### PARAGRAPH 122.

150. *Mr. Rau* : We have included this in the general instructions which we have issued to the Railway Administrations.

#### PARAGRAPH 123.

151. *Chairman* : Do you agree with the Director of Railway Audit ?

*Mr. Rau* : This is one of the points which I should like you to put to Sir Gurthrie Russell.

152. *Mr. Das* : Two years ago the Government of India brought out the new penalty rules for officers. Does the Railway Department accept every one of those rules and enforce them ?

*Mr. Rau* : We are trying to have disciplinary action in all cases brought before us but it frequently happens that officers leave the service and nothing can be done. In other departments Government have some hold on their pensions but in the Railways we have no control.

153. *Chairman* : Is it more easy for a Company-managed railway to take disciplinary action through its Agent and the Board of Directors than it normally is for the Agent of a State Railway or the Railway Board, because at any rate with regard to the gazetted officers any penalty of a severe character imposed on an officer has to go through a quasi-judicial procedure before the Public Service Commission ?

*Mr. Rau* : There is no doubt about that because as a matter of fact officers on State railways are practically treated like officers of the other departments of the Government of India and the same procedure is applied to them.

*Chairman* : So that where in a particular case the Agent of a Company-managed railway with the approval of his Home Board can say " I do not like you : you can go ", the Railway Board and the Agent of a State-managed railway have got to get practically a cast iron-case and even so are likely to have a recommendation to do nothing so severe ?

*Mr. Rau* : That is our experience. As a matter of fact, the Company-managed railway can easily get rid of a man because he is unprofitable without being able to say definitely that he has committed such and such mistakes or misdemeanours.

## PARAGRAPH 126.

*Mr. Rau* : As regards this paragraph, I would myself not call this additional payment a subsidy. The reasons for making this payment from railway revenues were given in detail in Sir George Rainy's speech on the 1st April 1931, when he moved a resolution on the subject which was accepted by the House. Briefly I may say that it was felt by Government that owing to the unfortunate circumstances that resulted in the reduction of orders placed on Tatas the additional amount paid was not an unreasonable price and was within the limits which would economically have been justifiable if in 1927 we could have foreseen a falling off in the rail orders. As regards the rolling stock, the policy of placing orders in India until the demand for wagons and underframes reached a total of 5,000 annually in terms of C 2 wagons, was in accordance with the recommendations of the Tariff Board. It will be readily acknowledged that it is in the interests of Indian railways that a strong wagon building industry should flourish in India. The difficulty in all these cases so far as the company-managed railways are concerned is that under the contracts it is not possible for Government to insist on their buying material and equipment at a higher rate without compensating them for the loss sustained.

154. *Mr. Ramsay Scott* : Have you given Tatas and the Iron and Steel Company any recent orders ?

*Mr. Rau* : This year I believe we have reduced very considerably, and I do not know whether we shall not have to reduce it still further next year.

## PARAGRAPH 127.

155. *Mr. Rau* : I think probably it will be advantageous if I were to explain it further. In 1929, the Railway Board approved of the East Indian Railway entering into an agreement for the supply of steel sections to the Tatanagar workshops at f. o. r., Calcutta price to the wagon building firms less Rs. 3. Calling for tenders for the purchase would have been a farce as the price is controlled by a ring. The Deputy Chief Mechanical Engineer, Mr. Martin, who entered into negotiations with the firm, saved the Government a large amount of money. The Railway Board asked the Agent of the East Indian Railway to draft a proper agreement with the firm in 1929, but owing to the fact that the firm's headquarters were at Bombay and the East Indian Railway headquarters at Calcutta and negotiations had to be conducted through solicitors, the final draft agreement could not be completed till 1931, when it was decided to drop the arrangement due to the closing of the Tatanagar workshops. The delay in executing the agreement has not, so far as I am aware, affected the interests of the railway.

## PARAGRAPH 128.

*Mr. Rau* : The original agreement was drawn up by the Sleeper Control Group's solicitors and up to May 1929 the group were of opinion that the terms of the agreement fully protected them ; but when competent legal opinion was taken on this particular case, doubts were expressed about the possibility of enforcing these clauses. They have since been amended in consultation with the Group's solicitors and it is hoped that now they are adequate.

156. *Mr. Das* : Is this Assistant Sleeper Officer an official of the B. N. Railway ?

*Chairman* : He is probably a Burma officer. The President is the Chief Engineer of the B. N. Railway.

*Mr. Rau* : This must be an officer of the Burma Railways because it was passed in Burma.

157. *Chairman* : Have you taken any steps to alter the agreement ?

*Mr. Rau* : Yes : in consultation with the solicitors again : but the original agreement was also drafted in consultation with the solicitors.

PARAGRAPH 129.—APPENDIX XIX.

*Mr. Rau* : I have sent in another memorandum as regards this paragraph, Appendix XIX.

158. *Mr. Das* : You have got the figure down to Rs. 13 crores ?

*Mr. Rau* : Yes. Even last year it was a crore below the lowest that we had during the last decade.

*Chairman* : I think it has been got down as low as it probably could.

*Mr. Das* : I would like to say that we laid down a rule for the Army Department that British stores should not exceed three months' stock and Indian Stores two months'.

159. *Chairman* : I am not sure that you can lay down any such formula in the case of railways. Is there any such formula ?

*Mr. Rau* : I do not remember the latest orders on the subject : I think we have reduced it from six and three months respectively—we have told the railways that they ought to base it on their issues of the previous year—not more than 40 per cent. or something of that sort. The original rule was six and three months. I think we reduced them last year—perhaps to four and two months, but I am not sure.

*Chairman* : I think we may express our satisfaction at the considerable reduction in stores balances which are shown by these figures.

160. *Mr. Ramsay Scott* : How much of this represents obsolete and useless stores ?

*Mr. Rau* : I do not think there is much of obsolete or useless stores, but permanent way material for which we have not much use at present, I think, represents 5 out of this 13 crores : fuel is 66 lakhs, timber is 67 lakhs, metals 123 lakhs and rolling stock 289 lakhs.

*Mr. Ramsay Scott* : Is there no market for this large stock of obsolete material ?

*Mr. Rau* : But the market is so bad that we cannot even sell them even if we want to. If you take the normal issue at 45 crores, it is only about 35 per cent. Again while the issues were reduced by 7 crores or 17 per cent. as compared with the previous year, the receipts were reduced by 8½ crores or over 22 per cent. : so that purchases have been reduced to correspond with the reduced issues.

The Committee then adjourned till 2-30 P.M.

**Evidence taken at the Fourth meeting of the Public Accounts Committee held on Friday, the 4th November 1932, at 2-30 p. m.**

**PRESENT.**

- |  |                  |                     |
|--|------------------|---------------------|
| (1) The Hon'ble Sir ALAN PARSONS,                                    | <i>Chairman.</i> |                     |
| (2) Mr. B. DAS.  |                  | }                   |
| (3) Mr. ABDUL MATIN CHAUDHURY.                                       |                  |                     |
| (4) Mr. MUHAMMAD ANWAR-UL-AZIM.                                      |                  | }                   |
| (5) Mr. T. N. RAMAKRISHNA REDDI.                                     | <i>Members.</i>  |                     |
| (6) Mr. S. C. MITRA.   |                  | }                   |
| (7) Maulvi Sir MOHAMMAD YAKUB.                                       |                  |                     |
| (8) Mr. J. RAMSAY SCOTT.   |                  | }                   |
| (9) Dr. R. D. DALAL.   |                  |                     |
| (10) Sir ERNEST BURDON, Auditor General.                             |                  |                     |
| (11) The Hon'ble Mr. J. B. TAYLOR, Financial Secretary.              |                  |                     |
| (12) Mr. P. R. RAU, Financial Commissioner, Railways:                |                  | } <i>Witnesses.</i> |
| (13) Mr. T. S. SANKARA AIYAR, Director of Finance,<br>Railway Board. |                  |                     |
| (14) Mr. L. S. DEANE, Controller of Railway Accounts.                |                  |                     |
| (15) Mr. A. C. BADENOCH, Deputy Auditor General.                     |                  |                     |
| (16) Mr. B. N. MITRA, Director of Railway Audit.                     |                  |                     |

**PARAGRAPH 131.**

161. *Chairman* : We now come to paragraph 131 where the Director of Railway Audit draws our attention to certain purchases which appear to have been made unnecessarily, and I propose to take them one by one, and ask Mr. Rau if he has any remarks to make on them.

*Mr. Rau* : As regards 131, the Railway Administration have explained that in some years goods vehicles had been ordered with vacuum brake and in other years without the brake, and that no final decision in the matter was arrived at until February 1930. The ordering of the 531 wagons complete with vacuum brake, which was done about 6 months before the final decision was arrived at was due to a misunderstanding on the part of the then Chief Mechanical Engineer, who was under the impression that the stock ordered in future would be obtained with vacuum brake with a view to the eventual conversion of all metre gauge wagons, in which case the cylinders at Hubli and those ordered on the 531 wagons and some 1,300 cylinders more would have all been required.

Owing to the curtailment of rolling stock construction programmes, it is expected that it will not be possible to use more than 34 of the surplus vacuum brake cylinders, but the Railway administration have been asked to furnish again all other metre gauge railways with full particulars of the vacuum brake cylinders so that the latter might obtain their requirements for maintenance and repair purposes from the M. & S. M. Railway, thus avoiding new purchases. The Railway administration have since issued instructions enjoining that statements giving particulars of rolling stock shall, in future, be accompanied

by a certificate from the Chief Mechanical Engineer that no surplus fittings and no fittings which are surplus and can be converted for use, are on hand. We have asked all Railway administrations to see whether they can utilise these surplus cylinders which are available. It was an error of judgment on the part of the Chief Mechanical Engineer, because his belief was that all the metre gauge wagons would be equipped with these cylinders in future. There was no decision on that point before. Some wagons were obtained fitted with these cylinders and some were obtained without these cylinders.

162. *Chairman* : Is it not a fact that all passenger vehicles should be fitted with vacuum brakes on a particular date?

*Mr. Rau* : Yes, but no decision has been arrived at.

#### PARAGRAPH 132.

*Mr. Rau* : As regards 132, if the estimate of requirements of wheel centres for 1928-29 had been based entirely on the previous three years' consumption, it ought, I understand, to have been 500, but this was increased to 700 by the then Controller of Stores who has since retired, for some special reason, which is not ascertainable from the records. It was apparently considered that the 100 wheel centres in stock and the 499 due were required to meet the probable demands to the end of March 1928.

The Controller of Stores was under the practice existing at the time of not immediately sending him advice notes of material returned to depot by shops, not in a position to know that there were 351 wheel centres lying unaccounted for in the depot. This practice has since been amended.

As regards the 179 wheel centres returned to stock by workshops, it is understood that at the time it was considered that wheel centres suitable for 9" x 4" axles could not be utilised for 10" x 5" axles. It was later on discovered that wheel centres for 9" x 4" can be bored to fit 10" x 5" axles.

The Railway Board agree with the Director of Railway Audit that it ought to have been possible with proper care to reduce the quantity indented for. The defective procedure, which has led to this, has since been altered.

Copies of the advice notes of material returned to shops, it seems, were not sent to the Chief Mechanical Engineer's office at once. That practice has been altered.

163. *Mr. Das* : Has that Controller of Stores left the service?

*Mr. Rau* : Yes, but this happened in 1928 or thereabouts.

*Chairman* : The whole thing in this is first of all they ought to know what stock they have and their estimates of their requirements should be made intelligently and not on the basis of three years' actuals. That applies to all these cases including this particular case.

#### PARAGRAPH 133.

164. *Mr. Rau* : As regards 133, the indent of July 1930 was for timber required in 1932, and the Railway Administration could not be expected to foresee the large fall in traffic in later years which reduced their ordinary building programme to a considerable extent. The continued fall in traffic enabled them in 1931 to make a better forecast of their requirements and consequently they did not call for tenders in 1931.

## PARAGRAPH 134.

*Mr. Rau* : I have really nothing to add here. The Chief Engineer had been examining the account of his own accord. They have fixed maximum limits for stock.

165. *Mr. Das* : Are they going to report to you that the stock has brought down or the Audit will report this, because the Chief Engineer fixed it at 15 lakhs ?

*Mr. Rau* : I think the Audit will probably bring it to notice again in later years if it has been exceeded.

## PARAGRAPH 135.

166. *Mr. Rau* : Here also we have taken the necessary action.

## PARAGRAPH 135.

167. *Mr. Rau* : I quite agree with the remarks here.

## PARAGRAPH 137 TO 139.

168. *Mr. Rau* : No remarks.

## PARAGRAPH 140.

*Mr. Rau* : I think at the time (1917) the concrete storage tanks were constructed, the alternative, *i.e.*, the construction of steel tanks was out of the question as it was considered impossible to obtain the necessary steel work. The best materials available were however, used, though it was recognised that a certain amount of loss by leakage would be inevitable.

In 1930 it was estimated that the cost of replacing these tanks with steel ones would be about Rs. 2 lakhs and such replacement would not be financially justifiable unless it is decided to continue or extend the use of fuel oil, and with present prices of coal, it is unlikely that we shall extend or even continue the use of fuel oil beyond the present contract unless we get a very big reduction in price.

169. *Chairman* : When will that fuel contract be over ?

*Mr. Rau* : It will be over in 1934. We are not going to extend it after that, unless we get a very big reduction in price. It is not worth our while to continue it.

170. *Mr. Das* : Was the leakage due to defective oil tanks or it was through officers ?

*Mr. Rau* : It is due to defective tanks.

*Mr. Das* : How is it that by inspection you could not detect the leakage ?

*Mr. Rau* : The oil soaks through the tanks.

*Mr. Das* : The tanks must be under ground, and even if there was no measurement, there must be some kind of indication of leakage ?

*Mr. Rau* : They could not do anything without replacement of the tanks by steel tanks and that would cost too much.

*Chairman* : It is most unlikely that this fuel oil will be taken again. It is most uneconomical. It is under a war time contract which we have not been able to get out of.

## PARAGRAPH 141.

171. *Mr. Rau* : The absence of a good market locally and the prohibitive cost of shipment to India, however, make the disposal of scrap a difficult problem to tackle. The suggestion for shipping the scrap to India by the Railway Administration running its own steamers between Calcutta and Rangoon, made by the Special Officers, has been carefully considered, and the Railway Board have come to the conclusion that it would not be a practicable and economical proposition.

## PARAGRAPH 142.

172. *Mr. Das* : I will only ask one general question. Last year you said that the knowledge you derived from the E. I. R. was communicated to other Railways. Did you find that the other Railways profited by that ?

*Mr. Rau* : I am sure they must have.

## PARAGRAPH 144.

173. *Mr. Rau* : Paragraph 144 is merely explanatory.

## PARAGRAPH 145.

*Mr. Rau* : No comments.

174. *Mr. Das* : Did the Burma Government guarantee any dividend on these lines ?

*Mr. Rau* : Most of these were guaranteed by the Local Government.

## PARAGRAPH 146.

*Mr. Rau* : The existing code rules on the subject have been revised and brought up to date, and are expected to issue shortly. Instructions have already been issued (in March 1931) that these accounts of classes of buildings (*viz.*, those in which rents are pooled) should be prepared from 1931-32. The Burma and G. I. P. Railways have, however, been permitted as a special case to postpone the introduction of these to 1932-33. The delay in the introduction of the new policy was to a certain extent inevitable. This policy has, however, been introduced on three of the State Railways (except the Burma and the G. I. P. Railways. On the G. I. P. Railway the difference between the rents payable under the new rules and those under the old company's rules is very large in many cases, and the Board were forced to come to the conclusion that at the present moment it was impossible to give effect to them without causing serious hardship. Orders have, however, issued (in November 1931) that the new policy should be given effect to in the case of new entrants on the G. I. P. Railway. There had been definite rules on the State Railways, but not on the company railways. Anyhow, we are taking steps in this matter, and the position has considerably been improved.

175. *Mr. S. C. Mitra* : This is really a very serious question. There are no reliable figures for the expenditure on these buildings ?

*Mr. Rau* : I think the reason given by the Burma Railways was that owing to their pre-occupations with retrenchment proposals, they had not sufficient staff to deal with this, and as a special case the Board agreed to their postponing it for one year.

As regards the unsatisfactory state of the registers of rentable buildings on the E. I. Railway, the Agent states that the position has since been considerably improved. The preparation of the rent schedules has been completed and these are being checked by the Chief Accounts Officer who had already issued tentative instructions for a more careful scrutiny of rent rolls.

PARAGRAPH 150.

*Mr. Rau : (to Mr. S. C. Mitra) :* Paragraph 150 gives the figures.

*Mr. Badenoch :* These figures were as near as we could get ; they were not reliable because of the absence in some cases of capital and revenue accounts but we made general calculations on rents received and the booked figures of capital expenditure on buildings.

176. *Chairman :* It is expected that by 1932-33 complete revenue and capital accounts of these buildings will be ready.

*Mr. Rau :* I think so, because all the railways except the G. I. P. Railway and the Burma Railways have introduced them in 1931-32 and these other will introduce them this year.

*Chairman :* It is important that there should be capital and revenue accounts accurate and complete and you will deal with the matter again in your report (to Mr. B. N. Mitra).

PARAGRAPH 162—APPENDIX XIV.

177. *Chairman :* Paragraph 162—Delays in Settlements between Railways.

*Mr. Rau :* We have submitted a memorandum on that point—memorandum No. XIV.

*Chairman :* Financially it is not of great importance, because the share of surplus profits in the case of a company-managed railway is so small that nobody cares to settle these joint station agreements. I do not imagine you have any objection to the modifications proposed here so long as it obviates these delays ?

*Mr. Badenoch :* No.

*Chairman :* I think what the Committee may do is to emphasise the urgency of devising some procedure which will not allow these joint station agreements to stand over from year to year. I think that is all that we can do. It has been referred to the Indian Railway Conference Association.

*Mr. S. C. Mitra :* We are concerned with the tender system.

*Mr. Rau :* In the new contract rules which we are just issuing, the rule is : “Whenever practicable and advantageous a contract shall be placed only after having first invited tenders (which should always be sealed) in the most open and public manner possible and with adequate notice. The decision as to whether or not tender should be called for rests solely with the Agent in respect of all contracts that may properly be executed by him or the officers under him, provided that, except in the case of works contracts based on the schedule rates in force on the railway the individual value of which is estimated not to exceed Rs. 50,000, in the event of his deciding against such a call the reasons therefor, which should be in the public interest, shall be recorded and communicated to his financial adviser”.

178. *Mr. S. C. Mitra* : Why are you putting it in such a weak form ? You say, " whenever practicable and advantageous ". There should be a general rule that tenders should be called for, and then you can have some exceptions. But here you begin with words of hesitation.

*Mr. Rau* : Here it says, " Whenever practicable and advantageous a contract shall be placed only after having first invited tenders in the most open and public manner possible ".

*Mr. S. C. Mitra* : In law we put the general clause first and then provide for any exceptions. But here you do it in the other way.

*Mr. Rau* : It is impossible to provide for everything, and therefore we give a discretion to the Agent who should communicate his reasons to the Chief Accounts Officer. The words, " in the event of his deciding against such a call, the reasons therefor, which should be in the public interest, should be recorded and communicated to his financial adviser " safeguard the interests of the public.

179. *Mr. Ramsay Scott* : Why put it in the negative ? Why not be positive.

*Mr. S. C. Mitra* : You begin with the words " whenever practicable and advantageous ". Why not you say, the general policy is that tenders should be invited, and then provide for any exceptions ? One can understand that. But from the very beginning you say, you can use your discretion to call or not for a tender. You subject yourself to criticism by such expression throughout the whole of India.

*Mr. Rau* : In the note we have made it clear.

*Mr. Ramsay Scott* : Are you afraid of hurting the feelings of the Agents ?

*Mr. Rau* : The question is what is " practicable and advantageous ", and not one of hurting the feelings of the Agents.

*Sir Muhammad Yakub* : If it is practicable in one department it should be practicable in other departments also.

*Mr. Rau* : But there are more contracts in the Railway department.

*Sir Muhammad Yakub* : But they have very many contracts in the Army.

*Chairman* : What I think is the substance of this criticism is about the drafting of this particular clause. You say, " Whenever practicable and advantageous. " Could we not have it like this, " Except where for reasons which shall be recorded and communicated to the Chief Accounts Officer the Agent decides that it is not practicable or advantageous to call for a tender, tenders shall be called for. "

*Mr. Rau* : I have no objection to that. It comes to the same thing.

*Sir Muhammad Yakub* : It does not. It encourages the Agents.

*Chairman* : In actual wording of English it does come to the same thing but its effect on the particular psychological animal called the officer is entirely different.

*Sir Muhammad Yakub* : I think we should make a definite recommendation that the language of this must be altered.

*Mr. Rau* : It is not published yet.

*Sir Muhammad Yakub* : It is still necessary that we should make a recommendation that before these rules are issued their language should be altered.

*Chairman* : The recommendation that we make is that these rules before they are issued should put down—I am not dealing with works contracts and things of that kind—that tenders should be called for except where for reasons to be recorded and communicated to the Chief Accounts Officer the Agent decides that it is not practicable or advantageous to call for tenders. That is all it comes to. The original rule might mean that in every case the Agent should consider whether it is practicable or advantageous to call for a tender, whereas the real object is that in every case the ordinary thing is to call for a tender, and it is only when there is some reason that it should not be done.

*Mr. Rau* : We really borrowed it from the Finance Department resolution of 1929 which was accepted by the Public Accounts Committee. That says, "Whenever practicable and advantageous."

*Mr. S. C. Mitra* : We have now revised our opinion.

*Sir Muhammad Yakub* : Make it quite clear that in each case ordinarily tenders will be called for, but in special cases if the Agent thinks that there are particular reasons for which tenders should not be called for, then he will record them and inform the Chief Accounts Officer.

180. *Mr. Chaudhury* : What are the particular reasons when tenders may not be called for? You are not bound to accept the lowest tender.

*Chairman* : Sometimes it will be an absolutely urgent work where a bridge is damaged and so on.

*Mr. S. C. Mitra* : You have always a list of approved people. You can further safeguard your position by asking for a further deposit, but let there be a fair field and no favour.

*Mr. Rau* : There will be a number of cases of small works.

*Chairman* : When an officer gets up to the rank of Agent he should be in a position to form a correct judgment; it is only in the case of junior officers that occasionally lapses occur.

*Mr. S. C. Mitra* : If it is unsatisfactory after a few years' working, we may amend it by saying that they should report to the Railway Board why they did not call for tenders. That will be a cheek on them.

*Chairman* : In every case it is not necessary nor desirable to call for tenders. I can give you one case—proprietary articles.

*Mr. Das* : I did not join in the discussion so far because the Agent and the Chief Engineer need not accept the lowest tender.

*Chairman* : He cannot do it unless he calls for tenders. If you are going to give the contract to a particular person he might very likely quote a higher price than he would do if he had to put in his tender.

*Mr. Das* : The engineers will say, give us power in respect of times of emergency.

*Chairman* : Then the Agent decides with his Chief Accounts Officer.

*Mr. Rau* : And he has to record his reasons for doing so.

181. *Chairman* : I turn now to the Working of Branch Line Agreement. I imagine the general answer on this is that we cannot alter them.

*Mr. Rau* : We are fully alive to the position, and whenever circumstances enabled us to alter the percentage we were not slow to take advantage of them; for example, in the renewal of the contract with the Ahmedabad-Prantij Railway the percentage was increased.

*Mr. Badenoch* : In paragraph 175 I think I recognise that.

## PARAGRAPH 176.

[The Chairman explained how the arrangement came into existence and believed that that had come to an end.]

182. *Mr. Rau* : That arrangement has been terminated.

## PARAGRAPH 171.

183. *Mr. Rau* ; With regard to paragraph 171, as pointed out by the Director of Railway Audit in paragraph 174, the advantages derived by the main line from interchanged traffic should not be overlooked, nor the fact that in practically all these cases we have, under the original terms of the contract, to pay a rebate to the worked line when its earnings are insufficient to meet interest at a fixed percentage of the capital and have a right to share in the profits when it exceeds that percentage. Charging a higher percentage of receipts for working the line would, therefore, in most cases where we are already paying the rebate, mean merely increasing the rebate *pro tanto*. Where we are earning surplus profits it may result in the surplus profits vanishing or being reduced to a certain extent. The losses quoted in paragraph 171 of the Report do not take into account this circumstance, and if rebates are taken into account, the average loss on the C. P. Railway would be 130,000 ; on the Pachora-Jamner Railway *nil* ; and on the Dhond-Baramati Railway 16,000.

As regards the Bezwada-Masulipatam Railway, the M. & S. M. Railway Administration, which works this line, considers that the branch line not only offers heavy traffic to the M. & S. M. Railway but also is a comparatively cheap line to work. The working expenses of the whole metre gauge system per 1,000 gross ton miles for 1930-31 work up to Rs. 9,725 as against Rs. 9,738 recovered by the administration on the 45 per cent. basis from the Bezwada-Masulipatam Railway. They think that the railway is not suffering any loss in working the branch line.

## PARAGRAPH 177.

184. *Chairman* : Paragraph 177. Hire charges recovered from Port Trusts, Calcutta and Bombay.

*Mr. Rau* : That has been settled.

*Mr. Das* : Settled to the advantage of the Railways or to the advantage of the Port Trusts ?

*Mr. Rau* : It is mutually advantageous, I hope.

185. *Mr. Das* : But the Director of Railway Audit points out that if you give too much advantage to the Port Trusts and do not charge them, then the collieries and others might take advantage of it. You will have to consider that, because the B. N. Railway's complaint is that they are losing.

*Mr. Rau* : I do not think that the Director of Railway Audit is criticising the final decision of the Government of India.

*Mr. Badenoch* : I must say this is an interesting point. It is not a case in which I would care to criticise. The policy is extremely difficult to settle.

*Mr. Rau (to Mr. Das)* : It is a question of give and take. We cannot insist upon our rights in everything. If it is a question of a sort of war between the Port Trusts and the Railways, both of us will suffer.

*Chairman* : Where the railways have got idle wagons, they might be stabled on the Port Trust, and the railways do not lose by that.

*Mr. Das* : But it might slacken work. If there is no demurrage charge there is a general slackening of work on all sides.

*Mr. Rau* : In certain circumstances we are recovering wagon hire charges.

*Mr. B. N. Mitra* : The position has improved since then. We had a meeting of the B. N. Railway authorities and the Port Trust people at which I was present. It was said that they had to work under bad labour conditions when these demurrage charges had to be foregone. Because of the orders of the Railway Board the time for handling has been reduced to a minimum and the occasion for demurrage charges has been reduced very considerably.

186. *Chairman* : Do you think the Railway Board's orders have had a good effect ?

*Mr. B. N. Mitra* : Yes.

*Mr. Badenoch* : What we objected to originally was that there was no regular working arrangement at all, and that is why we brought the case to notice in order that there may be some definite principles observed in these cases.

*Chairman* : We come to Miscellaneous. We will take Bombay Electrification schemes later.

#### PAGE 92 OF DIRECTOR OF RAILWAY AUDIT'S REPORT.

187. *Chairman* : Page 92. I entirely agree with what is said about over-capitalisation. When you scrap a locomotive or wagon without replacing it, you ought to write down your capital against revenue straightaway but the answer will be that you cannot do it under the terms of the contract.

*Mr. Rau* : What we have tried to do is this. When these reductions are authorised there is a stipulation that in the event of the stock being subsequently replaced capital should contribute towards the expenses of the replacement only to the equivalent of the sale proceeds to which it has been previously credited. The suggestion made by Mr. Badenoch that we should not reduce the items of rolling stock is a good one and we will consider it in future.

*Chairman* : The real effect of that suggestion is that the whole thing will be in a form which can be easily watched.

*Mr. Badenoch* : Otherwise if you reduce your authorised stock, there is a danger of the point being overlooked.

*Mr. Rau* : That is a point we shall have to look into very carefully. My present idea is that this suggestion would be advantageous. I have not had the time to look into it.

*Chairman* : This requires looking into. You can at any rate see that the company-managed railways do not at a time when they are not earning surplus profits, get all their new replacements at our expense. That is the position on the Bengal Nagpur Railway.

188. *Mr. Badenoch* : Is the suggestion made in paragraph 211 barred by contracts ?

*Mr. Rau* : I do not think they can claim replacements on the basis of the contracts. I could not myself find from the contracts that they are justified in claiming that. As a matter of fact, we have succeeded in one or two cases in the case of the Bengal Nagpur Railway in persuading them in the case of the garret engines to take one engine as replacing two. Under a literal interpretation of the contract, they may succeed in holding that replacements

are by units and not by tractive power or carrying capacity. What we are trying to do is when the rolling stock programme is under consideration to persuade them to take a new engine as equivalent of two or something like that.

189. *Chairman* : What is the actual contractual position with regard to these replacements ? Take the Bengal Nagpur Railway, for instance. Is it generally unit by unit ?

*Mr. Badenoch* : That has been only customary.

*Chairman* : I think they wanted arbitration but eventually it did not come off. It was a time when they were earning surplus profits. They wanted to take a new type of hopper wagon to capital on the ground that it was fresh equipment, though they had a large amount of general service wagons which had hitherto carried that particular class of work. We had an extremely heated discussion with the Home Board of the Bengal Nagpur Railway. I think Mr. Rau might look into this suggestion and see if it is feasible. I very much doubt whether it is feasible.

*Mr. Badenoch* : I am not quite sure whether that is laid down in the contracts. I do not think it is specifically laid down. It is simply custom. I should think the adoption of the suggestion will be on the whole advantageous. It would tend to clear their considerable arrears of replacements and would tend to keep them down.

*Chairman* : I cannot advise the Committee to make any recommendation on this myself.

#### PARAGRAPH 211.

190. *Chairman* : Paragraph 211. Over-capitalisation.

*Mr. Rau* : Over-capitalisation means partly that certain expenditure which ought to be charged under ordinary commercial principles of allocation to revenue has been charged to capital. This is the point of view that has been advocated by Sir Arthur Dickinson. At the same time it means that if the principles advocated by Sir Arthur Dickinson are followed the surpluses which we have had in the past from railway revenues and which we may get under the present principles of allocation would when normal times return be correspondingly reduced. The contribution to the general revenues is involved in that.

191. *Mr. Chaudhury* : Don't you think there is need for an expert inquiry into the working of the convention ?

*Mr. Rau* : The position was dealt with by Sir George Rainy in the Assembly in February 1930. A Committee was appointed and he explained why further meetings of the committee were not summoned. In 1929 I prepared a large number of documents.

*Mr. Das* : Is this Committee not competent enough to go into that question ?

*Chairman* : This is a subject for expert financial investigation, as to what are the proper principles for allocation between revenue and capital. For instance, I have always been in favour of raising the limit for minor works from 2,000 to 10,000 or 20,000 on State-managed railways. That is the type of investigation.

192. *Mr. Das* : When the Railway Board becomes a statutory body, will not the Public Accounts Committee examine the accounts of the Railways ?

*Chairman* : The practice differs in different countries. In some countries, the estimates are put before the legislature but not in others. The question is a very important one and whatever the new arrangements for railways may be they should not be based on a different system of allocation between capital and revenue to that which now obtains.

*Mr. Rau* : The question was carefully gone into by Sir Arthur Dickinson from the accounting point of view. From the financial point of view, there is little doubt that in principle it is more desirable that revenue should bear the cost of replacing like by like. It is only a question of practical politics. In 1925, the Assembly decided that the original value should be taken from revenue and the balance charged to capital.

*Chairman* : The main advantage of the original value is simplicity. In the long run I do not think there is much difference between the two. I made inquiries from railways at Home and so far as I could gather there is absolutely no principle behind the thing. Some of them do one thing and some of them do another. In company-managed railways they set apart from the depreciation fund as much as they can afford to.

*Mr. Das* : As the Government of India are thinking seriously to abide by the decision of the Round Table Conference, I think it would be well if the Secretary could forward our views to the Round Tablers. They as our representatives ought to be acquainted with certain aspects of our views on this question. I do not think this Committee is competent to go into the financial aspect of the matter. That is a matter for the so-called expert committee.

*Mr. Rau* : I do not think this is of any immediate constitutional importance. This question of allocation is a purely financial question.

*Mr. Das* : Everything has been left to the Round Table Conference. They are thinking of the political issues. They must know what is moving in our minds here.

*Chairman* : Your point is that it is better to be ready to deal with this question.

*Mr. Rau* : This is bound up with so many other questions, for instance, as to what is the proper provision for depreciation. The whole question is extremely difficult.

*Mr. Badenoch* : That is all the more reason why the subject should be threshed out.

*Chairman* : Supposing it is going to be statutory Railway Board, it will have to be separated off on some definite financial basis. We ought to have the grounds of the financial basis ready. What we really want is that the Railway Board and the Auditor General should sit together and put up a joint recommendation as to what extent that would be feasible.

193. *Mr. Badenoch* : Would the working of the Convention also come under review ?

*Chairman* : I should not take up the working of the present convention. It was a compromise not based exactly on commercial grounds. Whatever the future arrangements may be it is extremely improbable that they will follow the same lines as the present convention.

*Mr. Badenoch* : There is the question as to whether we should continue the depreciation fund in its present elaborate form at all and whether we

should not have the contribution in the form of a percentage charged on capital. In fact it means going back to reconsider the recommendation of the Railway Depreciation Committee in 1922.

194. *Chairman* : I think we should make a recommendation—the exact wording may be settled later—that whatever the future arrangements may be, that there should be an investigation as to what the financial basis of the arrangements is going to be.

I do not propose to bring in the question of a statutory body here : what we want to do is to get our minds clear as to the best financial basis of any arrangements contemplated. For example, we ought to define with a very great deal of precision what the financial powers of any body in charge of the railways will be ; the direction in which the railways are to work if they have got to cover their own charges, whether those charges should include amortisation charges, and so on, what they are going to adopt as their standard for amortisation of their expenses. That will depend to a very considerable extent on the allocation between revenue and capital.

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#### PARAGRAPH 214,

195. *Chairman* : 214 also includes the depreciation fund accounts of company railways. There is practically nothing in it.

*Mr. Rau* : The other points raised by Mr. Badenoch are under my consideration at present. Then there is the question of credits for material taken from a railway and taken to revenue,—whether they should not be adjusted against the depreciation fund account.

At present, if the credits were given to the depreciation fund instead of being given to revenue, the balances would be higher.

*Chairman* : The only reason for reconsidering the position would be if we had reason to anticipate that the depreciation fund balances were not growing.

*Mr. Rau* : The real reason for it is that it seems quite illogical that the mere accident of an asset being removed from its geographical position to another position should have the effect of a credit to revenue. That is not the intention of the present rules ; I believe the account officers are interpreting it that way ; I am looking into that.

#### BALANCE SHEET AND PROFIT AND LOSS ACCOUNTS OF RAILWAYS IN INDIA— ANNEXURE B TO APPROPRIATION ACCOUNTS.

196. *Chairman* : Balance sheet of railways. General balance-sheet, first page. We should see if it is in the form in which we would like it, and should merely take up the balance sheets of each individual railway if any Member wishes to make comments on them.

Has Mr. Mitra any comments to make on the form of this balance sheet ?

*Mr. B. N. Mitra* : I have no comments to make.

(*There was some discussion on the various items of the balance sheet at this stage.*)

*Sir Ernest Burdon* : Mr. Mitra's audit certificate at the end.

197. *Mr. Ramsay Scott* : Why have these railways not been audited ?

*Mr. B. N. Mitra* : They were not ready, I suppose, in time for audit. This is the first year.

*Mr. Badenoch* : This is the first time balance sheets have ever been prepared.

198. *Mr. Rau* : As regards the profit and loss account of railways (pages 6-7), I should like to ask the Committee whether they want any detail of these figures (inspection and so on) or whether an item of "miscellaneous expenditure" would be enough?

*Mr. S. C. Mitra* : Could you not have two years' figures, that is, the previous year's figures also?

*Mr. Rau* : Mr. Mitra is suggesting that we might have two years' figures, that is, include the previous year's figures also. We could easily do that.

*Mr. Badenoch* : They have not made the particular calculation for every individual railway.

*Mr. Rau* : Page 88 : In the next year there is no contribution paid, —so it will not come in at all.

199. *Chairman* : Is there anything further to ask on the balance sheet of the railways as a whole?

*Mr. Chaudhury* : I should be glad if next year along with this balance-sheet there is appended some note from the Director of Railway Audit. This year we have not been able to understand how to deal with this particular thing.

*Mr. Badenoch* : I think what Mr. Chaudhury is after is this. In the tentative skeleton of the form of the report suggested on the other report I suggest that there should be a review of the capital account and revenue of the other important balance sheet items not otherwise treated in detail.

At any rate I suggest here that the Director of Railway Audit in his appropriation report should comment on the balance sheet.

*Sir Ernest Burdon* : That would entail the Financial Commissioner of Railways touching upon it in his analysis.

*Chairman* : I do not want to ask them to prepare anything more. There is a danger of over-burdening it unduly.

*Mr. Badenoch* : The Director of Railway Audit would comment on audit points in connection with the balance sheet, would not review the state of the balance sheet of the railways.

*Sir Ernest Burdon* : The audit points which Mr. Badenoch has brought out on the subject of over-capitalization in this year's report would be linked with the capital account as presented by the Chief Accounting Officer.

*Mr. Badenoch* : The D. R. A.'s review would not be a review from the financial point of view but a review from the audit point of view.

*Chairman* : I think that would be quite useful.

*Mr. Chaudhury* : We should also like a financial review of the balance sheet, I think.

*Mr. Rau* : What you require is found in the financial summary of individual railways.

*Chairman* : We will accept that suggestion of yours, Mr. Badenoch.

RAILWAY COLLIERY BALANCE SHEETS FOR 1930-31 AND 1931-32  
(PROVISIONAL).

200. *Chairman* : Balance sheet of the collieries (page 50).

We are here to deal at the moment with the accounts in connection with documents presented to us for this year and our report should be presented as quickly as possible to the Assembly. The question of the company-management of their collieries and the policy in regard to their coal purchases had, I think, better be taken up at separate meetings, because it does not arise out of the documents in front of us at the present time. All we can do with these colliery accounts is to say whether they are in the form we like or want amplification and so on.

First one, item 2, B. N. R. : I see they had no liabilities at all ? Here we have got no liabilities under any of these heads.

*Mr. Rau* : Probably they have paid off everything by the end of the year. That is only undisbursed liability.

*Mr. Ramsay Scott* : They probably take it for granted that these will be paid off, so they have a carry-forward on both sides.

201. *Chairman* : The real thing is whether the form is such as we would like.

Depreciation fund of 6 per cent. : Is that sufficient ?

*Mr. Rau* : You base it on the amount of coal that you expect to take from the colliery.

202. *Mr. Das* : In some collieries the cost of electric plant is separately given, in others, it is included in the total cost. There should be one system of drawing up the accounts.

*Mr. Rau* : In certain railways, the collieries have no electric plants. But I am not sure of this.

203. *Chairman* : I want separate figures. If you refer to page 7, you find the capital balance, where the withdrawals from the treasury are added and remittances to treasury deducted and also sinking fund and other items, all these are lumped together and shown as 46,58,461. In the same way with regard to other assets.

*Mr. Rau* : We have not been able to get the correct figures.

*Chairman* : The intention is to get separate figures ?

*Mr. Rau* : Yes.

*Chairman* : In future, it is better to give separate figures.

*Mr. Das* : I should like to make one general observation and this was also made by my friend Mr. Neogy four or five years ago. I find some of the collieries have been purchased very cheap. The investment on land is very small, while their total working capital is very high. For instance, in the case of Kargali colliery, the investment on land is only Rs. 85,563 and yet the capital is about 56 lakhs. Collieries have been purchased at the sweet will of the Agents.

*Mr. Rau* : No ; these questions come up to the Railway Board. The Agents cannot do things at their own sweet will.

*Mr. Das* : Once we approve these accounts they become a sort of sanction.

*Chairman* : I am only trying at the moment to get at the form of accounts. I think we can approve the form of accounts.

204. *Mr. Chaudhury* : Has the Director of Railway Audit got anything to do with the forms ?

*Mr. B. N. Mitra* : We agree to the forms.

*Chairman* : I think we can approve the forms.

205. *Mr. Das* : This is the first year in which the colliery balance sheets have come before this Committee. In future years, I want that the year of the purchase of the colliery should be put down so that we may watch the growth of expenditure from year to year.

*Mr. Rau* : We can put in the date of the acquisition of the colliery.

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The Committee then adjourned till 11 A.M. on Saturday, the 5th November 1932.

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**Evidence taken at the Fifth meeting of the Public Accounts Committee held on Saturday, the 5th November 1932, at 11 A.M.**

**PRESENT :**

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|---|---|-------------------|
| (1) The Hon'ble Sir ALAN PARSONS, <i>Chairman</i> .               | } | <i>Members.</i>   |
| (2) Mr. B. DAS.   |   |                   |
| (3) Mr. ABDUL MATIN CHAUDHURY.                                    |   |                   |
| (4) Mr. MUHAMMAD ANWAR-UL-AZIM.                                   |   |                   |
| (5) Rao Bahadur M. C. RAJAH.                                      |   |                   |
| (6) Mr. T. N. RAMAKRISHNA REDDI.                                  |   |                   |
| (7) Mr. S. C. MITRA.  |   |                   |
| (8) Maulvi Sir MOHAMMAD YAKUB.                                    |   |                   |
| (9) Mr. J. RAMSAY SCOTT.  |   |                   |
| (10) Dr. R. D. DALAL.   |   |                   |
| (11) Sir ERNEST BURDON, Auditor General.                          | } | <i>Witnesses.</i> |
| (12) The Hon'ble Mr. J. B. TAYLOR, Financial Secretary.           |   |                   |
| (13) Sir GUTHRIE RUSSELL, Chief Commissioner of Railways.         |   |                   |
| (14) Mr. P. R. RAU, Financial Commissioner, Railways.             |   |                   |
| (15) Mr. T. S. SANKARA AIYER, Director of Finance, Railway Board. |   |                   |
| (16) Mr. L. S. DEANE, Controller of Railway Accounts.             |   |                   |
| (17) Mr. A. C. BADENOCH, Deputy Auditor General.                  |   |                   |
| (18) Mr. B. N. Mitra, Director of Railway Audit.                  |   |                   |

206. *Chairman* : Sir Guthrie, the first point in which the Committee would like to have a full discussion with you is in paragraph 120 of the Director of Railway Audit's Report. The Committee would like to discuss a technical question with regard to this particular type of engine.

*Mr. S. C. Mitra* : Were these XA types new designs or based on some older designs ?

*Sir Guthrie Russell* : It was absolutely a new design. These locomotives were built for speed up to 40 miles an hour but they were also thought to be able to do up to 60 miles, but for various reasons these locomotives instead of being used on branch lines had to be used on main lines.

*Chairman* : The position is that the locomotives released by electrification were mostly heavy locomotives and they could not be run over the lighter lines.

*Sir Guthrie Russell* : Yes.

207. *Mr. Das* : When the Railway Board was designing this particular engine they were also looking to the electrification scheme and the consequent transfer of these engines to the other lines and they overlooked that the engines should be assigned to suit these lines. Was it so ?

*Sir Guthrie Russell* : I do not think so. There was no intention to use these locomotives in the services they were used in. They were meant for branch lines.

*Mr. Das* : At the same time they expected that after the electrification scheme these engines would be transferred to other lines.....

*Sir Guthrie Russell* : Not these XA's. We had to provide light locomotives for branch lines because the engines on those lines were about 45 years old. At the same time we had to relay and renew our bridges to absorb the locomotives released by electrification. The thing that we failed to do was to relay and build the bridges owing to want of funds. As we failed in that we could not absorb the locomotives released by electrification and we had to use these light locomotives on the main line.

*Mr. Das* : If they had these defects, would not these defects be there on the main lines ?

*Sir Guthrie Russell* : No. They could do up to 40 miles an hour, but they had to do up to 60.

208. *Mr. S. C. Mitra* : In every engine is it possible to add to its speed ?

*Sir Guthrie Russell* : Yes, it depends on the particular feature in the design of these locomotives.

*Mr. S. C. Mitra* : So in this particular type it was intended that it might be required for higher speed ?

*Sir Guthrie Russell* : Yes.

*Mr. S. C. Mitra* : Does this mean that sufficient care was not taken to see that it might not hunt and oscillate ?

*Sir Guthrie Russell* : The G. I. P. was the only railway where they had this trouble with these locomotives and that also only on certain sections. When they were tested elsewhere they have given no trouble. The reason partly is that on the Itarsi line the track runs through black cotton soil where the track is difficult to maintain. That I think is one of the causes of oscillation.

*Mr. S. C. Mitra* : So there is nothing wrong in the engine itself but it is the lighter rails which caused this oscillation ?

*Sir Guthrie Russell* : It is one of the causes and you can get over that by making alterations in the locomotives. Other railways ran these engines without any trouble. On the N. W. Railway there was no trouble even on light tracks.

209. *Mr. S. C. Mitra* : How many derailments were there ?

*Sir Guthrie Russell* : There may have been about three.

210. *Mr. Chaudhury* : What was the hurry about ordering these engines ?

*Sir Guthrie Russell* : Because the engines on these lines were 45 years old and they could not put heavy locomotives there.

211. *Mr. Ramsay Scott* : I take it you have reduced your orders for engines because you knew you would get some from electrification ?

*Sir Guthrie Russell* : Yes.

212. *Chairman* : Are these engines satisfactory for the service for which they were designed ?

*Sir Guthrie Russell* : Yes, absolutely satisfactory.

*Chairman* : If you transfer to the main line the type of engine which you use on the branch lines do they give rise to these difficulties ?

*Sir Guthrie Russell* : I do not think the average engine in use on the branch lines of the G. I. P. could, with heavy main line trains, maintain a speed of more than 35 to 40 miles. It would be absolutely impossible to transfer them.

213. *Mr. S. C. Mitra* : Are all these 45 engines being used or are some of them lying idle?.....

*Sir Guthrie Russell* : All of them are in use except those which are in workshops for ordinary repairs.

214. *Mr. Chaudhury* : Were these engines ordered without specifications and designs ?

*Mr. Rau* : I think there is some misunderstanding. The first firm which had supplied these engines had these drawings.

215. *Mr. Das* : May I inquire if the Railway Board for the first time took upon themselves the designing of engines at this period ?

*Sir Guthrie Russell* : Yes, but [not the railways. The Railway Board at this time started the Standards Office and this is the first time the Railway Board have interfered in the designs. It is not a new sort of design because America has got the same kind of locomotives.

216. *Chairman* : I think we can probably leave this subject now. There is nothing more to be said about it.

The next point we want to ask you (*to Sir Guthrie Russell*) about is a small and rather a controversial one which is in paragraph 123 of Mr. Badenoch's Report. Mr. Badenoch has given as his opinion that company-managed railways take more stringent disciplinary action than State-managed Railways. What is your view on this controversial question ?

*Sir Guthrie Russell* : I think there is a certain amount of truth in that. The companies can be more arbitrary than we can. A railway servant is just like any other Government servant and he has so many people to appeal to whereas on a railway there is no question of that at all. On company-managed railways there are usually no appeals against the orders of the Agent whereas on State-managed railways people appeal on the slightest pretext. There they can be treated more arbitrarily and there is no appeal.

217. *Mr. Das* : Could you not introduce a system by which officers whether in State or company-managed railways should not be paid gratuities or pension charges until the Chief Accounts Officer or the Director of Railway Audit has reported on their liabilities ?

*Sir Guthrie Russell* : I do not think it is the function of the Chief Accounts Officer to administer the Railways. But usually the officer does not get his gratuity till he retires and generally he retires after two years' preparatory leave and he also leaves 10 per cent. of his provident fund till actual retirement. So there is ample time to find out if he has got any liabilities.

218. *Mr. Das* : We are examining the accounts of 1930-31 and in most cases we find that no action could be taken as the officers had retired from service.

*Mr. Rau* : We have issued instructions which will effect some improvement. Moreover, the irregularities mentioned in the report of 1930-31 were many years earlier.

*Sir Guthrie Russell* : If we demanded any form of certificate that would mean the Accounts Department taking over the administration of railways.

*Mr. Das* : If the gratuity or provident fund be paid two or three years later when the accounts are made up, that might improve matters.

*Sir Guthrie Russell* : The man has got to live somehow. We actually withhold 10 per cent. of his provident fund and the whole of his gratuity till he actually retires.

*Chairman* : That suggestion would be absolutely impracticable.

*Mr. Rau* : I hope the effect of our circular will be to improve matters.

219. *Chairman* : The third point of discussion will be raised by Mr. Das who will ask you (to *Sir Guthrie Russell*) about the relation of the Railways with the Indian Stores Department.

*Mr. Das* : This year we have very much appreciated the stores balance being reduced to a very low figure and we congratulate you and the Financial Commissioner on it. But I should like to know how the rupee tender is being practised on the railways and how its effect is seen as regards your patronage to the Indian Stores Department.

*Sir Guthrie Russell* : I think but for the abnormal falling off in traffic and depression you would have found the Indian Stores Department business increasing year by year. We have meetings every six months and usually Mr. Pitkeathly persuades us to give him a lot more business than we intended to give him. In fact every year we are giving him more and more business.

220. *Mr. Das* : As a result of the rupee tender system are the Railways buying more in India ?

*Sir Guthrie Russell* : The State Railways are practically buying everything in India. The latest figure of purchases in England is 7 per cent.

*Mr. Das* : Has the rupee tender changed your policy with regard to giving more patronage to the Indian Stores Department ?

*Sir Guthrie Russell* : I do not think it affects at all. The only things the Railway Board buy themselves are sleepers, coal, wagons and locomotives.

221. *Mr. Ramsay Scott* : Has this buying from the Indian Stores Department meant any saving in your own Stores Department ?

*Sir Guthrie Russell* : Yes, but a great many of petty purchases have to be undertaken by the Railways themselves.

*Mr. Ramsay Scott* : You pay the Indian Stores 1 per cent. for purchase and 1 per cent. for inspection. Do you consider that you can save that amount ?

*Chairman* : What he wants to know is, supposing it costs you 2 lakhs of rupees to purchase from the Indian Stores Department, can you save that 2 lakhs in your staff ?

*Sir Guthrie Russell* : I should say no.

222. *Chairman* : The last thing the Committee would like to ask you is about the electrification scheme on the G. I. P. Railway on which the Director of Railway Audit had certain comments and to which you have given a rejoinder.

*Sir Guthrie Russell* : I should like to say that I congratulate the Director of Railway Audit on his original memorandum though there are certain mis-statements and miscalculations. It is however a very interesting and instructive document.

*Mr. Das* : I think last year the Committee particularly asked the Director of Railway Audit to look into this aspect and you also said you would supply a statement as to how the Bombay electrification scheme is working.

*Sir Guthrie Russell* : If we could have agreed figures it would save a certain amount of trouble.

*Mr. Badenoch* : It would have taken some years to get agreed figures.

*Chairman* : As regards the Power House and the scheme, it comes to this ; the fact that the financial results have not been so satisfactory as originally anticipated is due to exceptional depression. I do not know if any individual Members of the Committee wish to make any further comments or whether Mr. Badenoch is in a position to suggest what further elucidation would be required in the Railway Board's memorandum.

*Mr. Badenoch* : I do not think there is really any difference between us about the Power House. I have arrived at the same conclusion as Sir Guthrie Russell. He is rather more positive than I am ; I was cautious.

*Sir Guthrie Russell* : If we had not electrified, I am quite certain that we would have lost more heavily. There is motor bus traffic between Bombay and Poona, and we now get to Poona by rail in a little over three hours because of the electrification. There is no question whatever that if we had not electrified there would have been very much more motor competition and we would have lost more heavily.

223. *Mr. Das* : The only thing I want to know something about is this. This is the first time I have seen an electrical firm of Consulting Engineers over-estimating within one year of their estimates. Of course, we have expressed our views very strongly on this electrification project and about the Kalyan Power House. That the estimates should be increased to the advantage of the Consulting Engineer,—I do not know to whose advantage,—is really surprising ; in fact there should have been no necessity whatever to change within one year the generating sets, because it all costs money, and it raises the cost per unit, while at the same time we said that the Hydro-Electric Company would have brought down their prices, in fact they wanted to bring down their prices.

*Sir Guthrie Russell* : If we had not built our own Power House, we could not have come to terms with the Power Company. You know that originally the Consulting Engineers thought that an 8,000 kwt. set was an economical set, and later on they thought that a 10,000 kwt. set would be more economical.

*Mr. Das* : Then again their original project did not include electric locomotives, and you had to purchase those afterwards ?

*Sir Guthrie Russell* : There was no increase in the number of locomotives. The estimates of the main line scheme have not gone up. The original estimate provides for 24 passenger locomotives, 41 goods locomotives and six shunting or ballast locomotives. These last were not ordered. So the actual number of locomotives was reduced from the original estimate and not increased.

224. *Mr. Das* : Do you mean to say that while your power-house estimates have increased the main line estimates have decreased ?

*Sir Guthrie Russell* : Yes, they have decreased by about 25 lakhs.

*Mr. Badenoch* : May I say a word about the electrification costs. It is a thing that probably will require a good deal more discussion between the account side and the audit side. I admit that we are probably a long way wrong in some of our data ; it may be that we do not entirely accept the basis of the accounts side, and it will only be through discussion that we shall agree on a proper basis.

225. *Chairman* : The question is whether you can really arrive at any comparative estimate of what in a normal year it would have cost if you had not the electrification and if we had employed steam ?

*Sir Guthrie Russell* : You will have to assume so many factors, because the price of coal is different from the time when we worked the steam service.

*Mr. Badenoch* : You can only base the comparison on assumptions.

*Chairman* : Would the assumptions be sufficiently accurate and not numerous to make any comparison of any practical value ? I am wondering whether it is worth while asking them to take all this trouble. It is no use to have a thing merely based on assumptions with regard to the possible cost of steam service when you have not got a steam service. They must try to get some agreement as to what is the reasonable basis. Have you any objection to seeing whether you can put up a joint note on the subject next year saying if you can come to some general agreement ? Merely because other countries have not done it, there is no reason why we should not take the lead in this matter.

226. *Mr. S. C. Mitra* : I would like to know which is the cheaper method, whether electricity or steam, taking the interest charges into consideration ?

*Sir Guthrie Russell* : It depends almost entirely upon the density of traffic.

*Mr. Das* : I must say what the G. I. P. have this year in their balance sheet mentioned something about electrification should be mentioned every year, in fact it should form a regular feature in their future Report. Let me congratulate Sir Guthrie Russell for the balance sheet he has submitted to us and for the financial results achieved.

*Sir Guthrie Russell* : I am glad that you find our Report useful ; I think Mr. Rau deserves the most of the credit for it.

[*The Chairman then thanked Sir Guthrie Russell who was allowed to retire.*]

*Auditor General's letter, paragraph 5.*

227. *Chairman* : I am now turning to the questions raised in paragraph 5 of the Auditor General's letter. The main point, I think, made by the Director of Railway Audit is that the present classification in the Demands for Grants does not correspond to the actual abstract in which expenditure is compiled on Railways, and therefore it means really a sort of re-compilation from the accounts so as to get the figures in a form which would enable us to deal with them in the Appropriation Accounts.

[*The Chairman said that the sub-divisions put in the Appropriation Accounts should correspond with the sub-divisions in the Working Accounts by which control is actually carried out.*]

*Mr. Rau* : But there are practical difficulties in the way, because there is a double classification in the Railway accounts ; there is a classification by abstracts and there is a classification under the minor heads Administration, repairs and maintenance, operation and renewals which go into every Abstract. Every expenditure is divided like that. It is not an easy matter to see that our abstracts and our expenditure in the Demands for Grant correspond exactly.

*Chairman* : After all, we do not want to fetter their hands. When it comes to us our object is to see whether the arrangement from our point of view is suitable for purposes of discussion in the Assembly. I do not like of course to see any alteration in the structure of the main Demands for Grants against which at present the Controller of Railway Accounts conducts his Appropriation. But so far as the supplementary details by individual Railways are concerned, I think they will be well advised to accept the suggestion made by Mr. Rau in paragraph 77 of his Report.

It will not mean much alteration : it will not give any more trouble in the preparation of the budget and it will not in any way reduce the information given to the Assembly and it will put the information in a more easily understandable form.

*Sir Ernest Burdon* : At present the pink books presented to the Assembly have got no appropriation accounts as counterparts and that is obviously an irregularity which it would be desirable to cure. The suggested arrangement might turn out to be economical of labour and money. Of course, we have still got to work out the details : but if it is practicable it is entirely in accordance with orthodox doctrine and at the same time entirely desirable.

*Mr. Rau* : I agree.

228. *Chairman* : I think we can make a definite recommendation that the accounting and audit authorities will attempt to work out the scheme on these lines. You cannot obviously introduce it for next year's budget as far as I can see ?

*Mr. Rau* : I am afraid not. Probably it could be done with effect from the budget of 1934-35 and it would give us the advantage of placing the form before the Public Accounts Committee.

*Sir Ernest Burdon* : I suggest we get the skeleton form printed so that the Public Accounts Committee might see actually what they will have to deal with.

### Chapter III, D. R. A.'s Report.

229. *Chairman* : What have you to say on this proposal about strategic railways in paragraph 20 of Mr. Badenoch's Report (page 7) ?

*Mr. Rau* : There is a reference to it on page 34 of my report (Review). From the point of view of practical expenditure the distinction is not of any value because the total expenditure is dealt with by the administration as one whole and it is only at the end of the year that it is divided according to certain formulæ.

*Sir Ernest Burdon* : I think we must recognise it as an actual fact that control is not exercised and cannot be exercised separately ; there is no means to enable that to be done and we have just got to recognise it.

*Chairman* : I do not think this Committee need raise any objection to the course proposed. I think you can show it as appendix II to the Demands rather than in a memorandum.

*Sir Ernest Burdon* : I think that concludes my letter.

230. *Mr. Badenoch* : I have said something about the earlier preparation of accounts in part B of Chapter III in connection with the Demands for Grants.

*Chairman* : I understand that these alterations will assist in the earlier closing of the accounts.

*Mr. Rau* : I do not know whether they will, but they will certainly assist in the control of expenditure.

*Sir Ernest Burdon* : They will probably help in the earlier preparation of the appropriation accounts.

*Mr. Das* : It is for you to say if you will conform to the promises made by your predecessor, Mr. Hayman.

*Chairman* : Do you think you can ?

*Mr. Rau* : I doubt it very much under the present system, but I want these details to be worked out by Mr. Deane and Mr. Mitra before we come to any definite conclusion on this point. The companies especially lay very

great stress on the existing system : they work on a six-monthly basis and there is the apportionment of traffic earnings between the main and worked lines and there is also the question of monthly accounts.

*Chairman* : We should like this point to be gone into and let us have a report. The whole idea is to facilitate control.

*Mr. Badenoch* : Especially operating control which is the most important from the railway working point of view.

*Chairman* : As regards your report on this chapter, Mr. Rau, there are certain things which you are at present pursuing with the Auditor ?

*Mr. Rau* : The main things are as regards paragraph 86 (a) and (b). The Auditor General has agreed to our proposals and we are going up to the Secretary of State.

231. *Mr. Chaudhury* : As regards paragraph 11 of Mr. Badenoch's report, does it not require the sanction of the Auditor General ?

*Mr. Rau* : It is not a classification in the accounts : it is only a change in the assets for which we make a contribution to the depreciation fund ; it is a minor matter.

*Mr. Chaudhury* : Are the Railway Board free to make a change like that ?

*Mr. Badenoch* : The technical position is that as long as they do not cause a change in the Finance and Revenue Accounts or introduce a new minor or major head, the Auditor General does not interfere at all.

*Chairman* : It is only a correction of a previous classification.

*Mr. Rau* : It is not really a matter so much for the Auditor General as for the Finance Department to be consulted.

*Sir Ernest Burdon* : In this particular matter if this required the sanction of the Auditor General the first thing the Director of Railway Audit would have done would have been to insist upon that sanction being obtained. As he has not mentioned it, it may be taken for granted that what was done was regular, that is, in accordance with the regulations.

232. *Mr. Chaudhury* : Is the Railway Board competent to make these changes ?

*Sir Ernest Burdon* : In this particular case, yes. There are certain rules in the Auditor General's statutory rules where it is laid down what the authority of the Auditor General shall be in regard to classification ; and what was done here does not come within the mischief of that rule.

*Chairman* : As the Railway Department of the Government of India, if it was likely to affect to any extent the general financial position of the general budget or the ways and means position, it would be the duty of the Secretary in that department—actually it is the Chief Commissioner—to see that it was referred to the department or departments concerned. In this case it would be to the Finance Department.

*Mr. Rau* : The fact is that this would always come to the notice of the Financial Commissioner who represents the Finance Member and in matters of importance he would certainly bring it to the notice of the Finance Department.

*Vizagapatam Harbour.*

233. *Chairman* : Vizagapatam Harbour : there is a footnote at page 362 of the Demands for Grants.

*Mr. Rau* : I have submitted a note about that—Appendix XVIII. The estimates have not been further revised.

234. *Mr. Ramsay Scott* : There was some difference in the cost of the two vessels purchased ?

*Mr. Rau* : Yes ; the cost of the vessel purchased in India was very much less ; the reason is of course that the vessel purchased in England included cost of transport : owing to certain special requirements it could not be purchased here and tenders could not be advertised because there was no time and the matter had to be dealt with emergently and by the time the Consulting Engineers were consulted we had to get the ship as early as possible because it was important it should be here in India by December—otherwise there would be no chance of opening the Harbour in April 1933.

*Chairman* : It is to prevent silting up, they are doing this ?

*Mr. Rau* : Yes.

235. *Chairman* : When do you expect to open the Harbour ?

*Mr. Rau* : In April 1933 if all goes well.

*Mr. Badenoch's Report on limitation of Audit and retrenchment in Railway Audit Department.*

236. *Chairman* : The final thing is this report of Mr. Badenoch and there are three main points on which the Auditor General would like to have the views of the Committee. I propose to ask Sir Ernest Burdon if he would explain what those points are so that we can express an opinion thereon.

*Sir Ernest Burdon* : I think perhaps it would be convenient if I retraced the origin of the discussion regarding this particular matter. The Railway Retrenchment Sub-Committee proposed certain retrenchments in the railway audit branch which I felt unable to accept. One of the objections I raised was that if these retrenchments were to be carried out, then undoubtedly it would not be possible to supply this Committee with the same information and the same facilities for control of railway expenditure as it had had in the past ; and it was agreed at my suggestion that a reference should be made to the Public Accounts Committee with a view to ascertaining above all things whether the Public Accounts Committee were willing to accept any diminution in the said information and facilities. The Public Accounts Committee answered that question very definitely in the negative. As an alternative to the proposals of the Retrenchment Sub-Committee I suggested and the Government agreed that Mr. Badenoch, who was the Director of Railway Audit last cold weather, should be asked to investigate methodically and scientifically how the separated audit of railway expenditure and receipts can be safely limited and to what points a limited audit can best be directed, and on that basis to suggest alternative economies in the railway audit branch which might be accepted in preference to the more drastic and summary retrenchments which the Retrenchment Sub-Committee had proposed. That is how the matter started. Mr. Badenoch carried out the enquiry and prepared this report which has been in the hands of the Public Accounts Committee since last September. This report has been communicated to the Public Accounts Committee on the same ground as that on which the Public Accounts Committee was consulted on the previous occasion.

The three main points on which I think it is desirable that the Public Accounts Committee should have an opportunity of expressing their opinions are as follows. In the first place, do the Public Accounts Committee accept generally Mr. Badenoch's conception of what the extent and the direction of test audit of railway transactions should be, and I suggest that the Committee might frame their opinion from the same standpoint as before, that is to say, whether under such a system the Committee feels that it would get the information and the facilities which it desires for a proper scrutiny of the railway accounts.

237. *Mr. Chaudhury* : May I ask you, if we accept the programme that has been outlined by Mr. Badenoch, will there be any diminution of the supply of materials that we do get now ?

*Mr. Badenoch* : I should say no appreciable diminution.

*Mr. Chaudhury* : What do you mean by appreciable diminution ?

*Mr. Badenoch* : So that you may not notice it.

*Chairman* : Actually in what way would there be any diminution ?

*Mr. Badenoch* : I propose that the percentage of test audit in certain cases should be reduced, that is to say, we cover fewer transactions on the whole—not fewer in any very important matter, but the D. R. A.'s Report would not be quite so broadly based.

238. *Chairman* : Therefore what it comes to is this, whether in the opinion of the Director of Railway Audit and particularly of the Auditor General the test audit slightly reduced as proposed will really be sufficient to perform the functions of test audit,—that is what it really comes to—so that it would secure that the accounts of railways are sufficiently checked by the Auditor General's staff so as to discover if there is anything seriously wrong. So far as information is concerned, I presume that there will be no diminution at all, but will there be left spheres in which information will no longer be obtained ? Do Mr. Badenoch's proposals give you a sufficient check on the railway accounts ?

*Sir Ernest Burdon* : I am perfectly prepared to try it. After all, any departure of this kind must be to a certain extent experimental, but I do not think that there is any undue danger in making the experiment. The Public Accounts Committee will receive the same categories of information, but as I have said, Mr. Badenoch's report of audit results will be somewhat less broadly based than it is at the present moment.

*Chairman* : What it comes to is this. Our acceptance of Mr. Badenoch's proposals with your agreement must not in any way debar you from coming up for an increase in the test audit if you find that they do not give you sufficient check.

*Sir Ernest Burdon* : Yes.

*Mr. S. C. Mitra* : So it is only a tentative scheme ?

*Sir Ernest Burdon* : So it must be in the nature of things.

*Mr. S. C. Mitra* : We would like to emphasise the point that economies in audit may not pay ; really it might be more expensive.

*Mr. Das* : Quite so.

*Mr. S. C. Mitra* : It is at your suggestion that we are accepting the proposals, and if we fail in getting proper information or efficiency suffers, you will be responsible, and we would be the last persons to accept economy in a bad way.

*Mr. Badenoch (to Mr. Scott)* : The original budget for 1932-33 was Rs. 19,18,000, and I propose to reduce it to roughly about Rs. 15 lakhs if all the proposals are carried out.

239. *Mr. Ramsay Scott* : If you examined 1,000 cases before how many cases do you propose to examine now ?

*Mr. Badenoch* : It is not uniform. One of the principles laid down by me was that the whole field must be covered. No class of transactions must remain outside the scope of test audit. Then I examined practically every kind of transaction and considered what minimum could be adopted so as to allow the audit department to judge fairly well of the efficiency of the whole, and I have suggested different percentages of test audit for different transactions.

*Mr. Ramsay Scott* : You have reduced the percentages by how much, 1 per cent., or 2 per cent., or 3 per cent. ?

*Mr. Badenoch* : Well, generally speaking, the previous principle was one month's accounts in the year, but that was increased in a number of classes of transactions. For instance, in the case of audit of gazetted officers' pay it was 2 months, and there are one or two other cases like that. I have reduced it, generally speaking, to the standard of one month's accounts in a year, and where, as in the cases of certain classes of stores vouchers for instance, the vouchers are uniform, and various transactions like that, I have reduced the standard still further.

*Mr. Das* : If I eventually agree with the Auditor General in his agreeing with Mr. Badenoch to reduce the audit expenditure, I still hold the same view that I held last year, and my conclusion has been proved by Mr. Badenoch's able note. The Retrenchment Sub-Committee should not have been so very particular about minimising expenditure on audit. But I have to respect the opinion of Mr. Badenoch. He has been Director of Railway Audit, and when Sir Ernest Burdon agrees with him and says that he will try it, I will only tell him that he should go cautiously and not to drastically cut which Mr. Badenoch suggests.

240. *Chairman* : I think, if I may say so, on the opinion expressed by the Auditor General we can express our general agreement with those proposals subject to a definite limitation that if on any occasion the Auditor General considers that the amount of check or test applied is insufficient, the fact that we have agreed now in no way debars him from immediately coming up for an increased check or test.

*Mr. Ramsay Scott* : The proposals will be tried for a year ?

*Sir Ernest Burdon* : A year is too short.

*Chairman* : I should be content to leave it entirely to the Auditor General. If at any time he considers that it does not enable him to fulfil his responsibility, he should not be in any way debarred because we have agreed here, from coming and saying, "I wish to increase my percentage of check to any class of transactions". I think that will do.

*Sir Ernest Burdon* : I should just like to say one or two further words. I think the Committee is in a very good position to judge the weight which should be attached to Mr. Badenoch's opinions, if they judge it by the character of the audit report which he has presented for the accounts of 1930-31. There is another point which may interest the Committee to know. In considering these proposals we have had regard to the percentage of test audit which is done in other spheres and in other countries. It may interest the Committee to know of a parallel there is in the case of the audit of customs revenue in the

United Kingdom. The places at which the customs duty is collected in the United Kingdom are constituted in groups which are called collections, and the Comptroller and Auditor General in the United Kingdom considers it sufficient if his test audit covers these collections, the whole lot of them, once in a cycle of eight years. The test audit which under Mr. Badenoch's proposals will be carried out in respect of the Railway Board's transactions will of course be very much larger than that.

*Mr. Chaudhury* : Mr. B. N. Mitra differs from Mr. Badenoch in certain points. He thinks that Mr. Badenoch has been too drastic in his recommendations.

*Sir Ernest Burdon* : If you would like to hear Mr. Mitra, he is here.

*Mr. Das* : I do not like that we should put two Directors of Railway Audit against each other. We would leave it to the Auditor General to devise the best means. I think we can leave it at that. You are talking of the customs revenue. You have introduced this year a permanent.....

*Sir Ernest Burdon* : I have introduced something here in India which is also much more extensive than the corresponding audit in England. We are taking less risks here.

*Mr. S. C. Mitra* : So we take it that there will be no hesitation on your part to come forward if you find that this experiment does not come up to expectations.

241. *Sir Ernest Burdon* : None at all. Of course, I must remind the Committee of the principle which has been very definitely recognised by myself, by the Government and by the Public Accounts Committee—that one test will undoubtedly be the degree of efficiency which we find is being maintained by the primary accounting and internal check department. Our test audit will I think at any rate enable us to judge quite satisfactorily of the degree of efficiency of the railway accounts department as an accounting and as an internal check department.

My second point is this. The opinion of the Committee would be desirable on Mr. Badenoch's proposals as regards the method of presentation of the results of audit. It begins at page 44 of his report. In effect, what it amounts to is that the Public Accounts Committee under the new system will receive exactly the same type of Director of Railway Audit's report as they have received this year in respect of 1930-31, probably with certain improvements consequent upon the changes which have now been agreed to in regard to the presentation of the appropriation accounts themselves by the Chief Accounting Officer, and further improvements which will I am quite sure result from the adoption of the proposals which we have been discussing this morning.

*Chairman* : In the last paragraph there is a tentative skeleton form of report. I think we may accept his general proposals without in any way binding him exactly to the details given there. He may bring to our notice whatever variations may be required in order to present the report in as convenient a form as possible.

*Sir Ernest Burdon* : The third point is really consequential. It is a question of the actual retrenchments of expenditure which are proposed. I feel that as the Committee was consulted on the original suggestions they should similarly have an opportunity of expressing their opinion on these specific proposals which are now made—a general opinion at any rate.

242. *Chairman* : Mr. Rau, have you got to say anything on that ?

*Mr. Rau* : I am afraid the Railway Department has not gone into this question as a whole. There are one or two points in which there are likely to be differences of opinion, but not on any question of principle. There is, for instance, the question about the extent of audit of traffic receipts. My Controller of Railway Accounts has suggested that it would be possibly easier for him to have a re-check quite as efficiently, but I am not sure there are not advantages in having a check of the receipts by an independent authority.

*Mr. Das* : But that does not prevent your Controller of Accounts from having a re-check.

*Mr. Rau* : But that means a double check. That is a point on which we have not yet made up our minds.

243. *Chairman* : You do not want us to express our opinion now on individual proposals. We would leave the actual proposals to be dealt with in the ordinary way, and perhaps you would give us, as we have dealt with it before, a statement of the actual action taken on the detailed proposals on the next occasion.

*Sir Ernest Burdon* : As I said before, it is really consequential. Mr. Badenoch's revised scheme of audit can be entrusted to an establishment reduced to what he proposes. That is the essence of the thing.

*Chairman* : I do not think the Committee will be well advised to express an opinion on the detailed proposals such as that mentioned by Mr. Rau with regard to traffic receipts.

*Sir Ernest Burdon* : I take it that the Public Accounts Committee will be satisfied if the information and various means of control which have hitherto been supplied to them continue to be supplied to them, and if there be an understanding as the Chairman has said, that if I find what is being done is in any way inadequate or incurs possibly too great a risk I should be at liberty to come up again to Government and say that I want to tighten things up and strengthen my machinery. That will satisfy me. Actually, so far as these individual retrenchments are concerned, I have not myself come to any final opinion. I sent the report on to Government. The Government have been considering it, and after I have had the views of the Railway Board, then only shall I make a final recommendation to the Government regarding the modifications of establishment.

*Chairman* : You will let us know when these detailed proposals have been settled in the ordinary method exactly what has been accepted or what modifications have been made to the proposals of Mr. Badenoch.

244. *Mr. Ramsay Scott* : Will they come into effect from next year ?

*Sir Ernest Burdon* : I cannot tell because there are a large number of considerations which have got to be looked into. For example, I am strongly opposed to reductions of establishment being carried out precipitately. I have got to consider their effects on the administration of the service, for the contentment and efficiency of which I am responsible, and if I decide that some appointments have to go, I must consider the manner in which and the time at which the reductions can be carried out, without, as I say, impairing the contentment and consequently impairing the efficiency of the services.

(*The witness then withdraw.*)

The Committee then adjourned till 12 noon on Saturday,\* the 12th November 1932.

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\* The Committee adopted the draft Report with certain additions at its meeting held on Saturday, the 12th November 1932.