

REPORT
OF THE
PUBLIC ACCOUNTS COMMITTEE
ON THE
ACCOUNTS OF 1921-22

Volume I—Report



SIMLA
GOVERNMENT OF INDIA PRESS

PREFACE TO THE 1929 EDITION

The constitution and control of the Central Public Accounts Committee as laid down in Rules 51 and 52 of the Indian Legislative Rules made under Section 67(1) read with Section 129A of the Government of India Act, 1919 are as follows:—

51. (1) As soon as may be after the commencement of the first session of each Assembly, a committee on Public Accounts shall, subject to the provision of this rule, be constituted for the duration of the Assembly, for the purpose of dealing with the Audit and Appropriation Accounts of the Governor General in Council, and such other matters as the Finance Department may refer to the Committee.

(2) The committee on Public Accounts shall consist of not more than twelve members including the Chairman, of whom not less than two-thirds shall be elected by the non-official members of the Assembly according to the principle of proportionate representation by means of a single transferable vote. The remaining members shall be nominated by the Governor General.

(3) Casual vacancies in the Committee shall be filled as soon as possible after they occur, by election or nomination in the manner aforesaid according as the member who has vacated his seat was an elected or nominated member, and any person so elected or nominated shall hold office for the period for which the person in whose place he is elected or nominated would, under the provisions of this rule, have held office.

(4) Of the members elected at the time of the constitution of the Committee not less than one half, who shall be elected by lot, shall retire on the expiry of one year from the date of their election and the remainder shall retire on the expiry of the second year from that date. The vacancies thus created in each year shall be filled as they arise by elections held in the manner aforesaid and the members so retiring shall be eligible for re-election.

(5) The Finance Member shall be the Chairman of the Committee.

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52. (1) In scrutinising the Audit and Appropriation Accounts of the Governor General in Council, it shall be the duty of the Committee to satisfy itself that the money voted by the Assembly has been spent within the scope of the demand granted by the Assembly.

(2) It shall be the duty of the Committee to bring to the notice of the Assembly—

(i) Every reappropriation from one grant to another grant.

(ii) Every reappropriation within a grant which is not made in accordance with such rules as may be prescribed by the Finance Department.

(iii) All expenditure which the Finance Department has requested should be brought to the notice of the Assembly.

In preparing this Epitome of the Reports from the Central Committees of Public Accounts from 1923 to 1927 it has been my aim to adhere as closely as possible to the principles observed in the English Epitome. I reproduce below an extract from the preface to the 1911 edition of the English Epitome:—

“In the new volume it has been my aim to include:

- (1) All recommendations on questions of principle affecting Accounts generally, if still in force.
- (2) Recommendations afterwards amplified or amended only when it seems desirable to illustrate the historical development of a principle.
- (3) Recommendations relating to particular accounts only when necessary to explain the form or contents of the current estimates or accounts.

The Reports are arranged in chronological order, but paragraphs quoted at length or fully summarised in a later Report have, as a rule, been omitted from the original Report.

The various sections of the Reports are immediately followed in italics by the comments and decisions of the Treasury on the points discussed, the dates of the Treasury Minutes being shown at the head of each Report.”

In this Indian publication the Resolution of the Government of India, Finance Department on the Central Public Accounts Committee's Reports take the place of the Treasury Minutes referred to in the English Epitome. When orders independent of the original Government of India Resolutions are subsequently issued these independent orders are quoted as foot-notes and the more important of them are reproduced in italics. Unless foot-notes to the contrary appear, the main points have been dealt with in the original Finance Department Resolution. Some of the important papers which have appeared as appendices to various reports of the Public Accounts Committee have also been included.

M. F. GAUNTLETT.

Auditor General in India.

NEW DELHI;

The 12th February, 1929.

PREFACE TO THE SECOND EDITION

The object of this Volume is to bring the edition of 1929 up to date. It includes the more important recommendations of the Public Accounts Committee in its Reports up to 1950, based on its scrutiny of the Appropriation Accounts for the years ending with the Accounts for the period 1st April to 14th August 1947 i.e. up to the transfer of power. The scope of this edition has purposely been limited to this period so as to cover the entire accounts of the undivided India.

2. The method of selection and arrangement adopted in preparing the 1929 edition has been followed. An effort has been made at the same time to retain in this volume only matters of permanent and practical interest in the light of the major constitutional developments of the recent years. As the work proceeded, however, it was found that the bulk of the matter in the first edition continues to be of practical interest even now and therefore not much of it has been omitted from this volume.

3. Up to the year 1927-28, the Government was issuing an omnibus Resolution containing its orders on the recommendations of the Committee included in a year's report. From 1928-29 onwards the issue of the omnibus Resolution was discontinued and the Government adopted the system of issuing separate orders on each of the recommendations. The paragraphs of the Resolution or the orders of Government on individual paragraphs are reproduced in the Epitome below the relevant paragraphs of the Report in italics.

4. Throughout the period covered by this Edition, the constitution and control of the Public Accounts Committee (reproduced in the Preface to the First Edition) as laid down in Rules 51 and 52 of the Indian Legislative Rules under Section 67(1) read with Section 129-A of the Government of India Act 1919 continued to remain in force, since the Indian Legislative Rules were valid even after the Government of India Act 1935 came into effect by virtue of Section 38(3) *ibid.* It is relevant to mention that since 26th January 1950 when the new Constitution of India came into force, the constitution of the Public Accounts Committee has been altered and its powers amplified from time to time by the Speaker of the House of the People in exercise of the Powers conferred on him by clause (2) of Article 118 of the Constitution. The more important changes introduced in the existing Rules of Procedure and Conduct of Business affecting the Public Accounts Committee as in the Third Edition of "Rules of Procedure and Conduct of Business in the House of the People" are reproduced below:—

237. (1) There shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the House for the expenditure of the Government of India, the annual Finance Accounts of the Central Government and such other accounts laid before the House as the Committee may think fit.

(2) In scrutinising the Appropriation Accounts of the Government of India and the report of the Comptroller and Auditor General

thereon, it shall be the duty of the Committee on Public Accounts to satisfy itself—

- (a) that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;
- (b) that the expenditure conforms to the authority which governs it; and
- (c) that every reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

(3) It shall be also the duty of the Public Accounts Committee—

- (a) to examine the statement of accounts showing the income and expenditure of State Corporations, Trading and Manufacturing Schemes and Projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the Statutory rules regulating the financing of a particular corporation, trading concern or project and the report of the Comptroller and Auditor General thereon;
- (b) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor General of India either under the directions of the President or by a statute of Parliament; and
- (c) to consider the report of the Comptroller and Auditor General in cases where the President may have required him to conduct an audit of any receipts or to examine the accounts of stores and stocks.

(4) If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit.

238. (6) (a) The Chairman of the Committee shall be appointed by the Speaker from amongst the members of the Committee.

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(10) The Committee may hear officials or take evidence connected with the accounts under examination. It shall be in the discretion of the Committee to treat any evidence tendered before it as secret or confidential.

V. NARAHARI RAO,
Comptroller and Auditor General of India.

NEW DELHI;
The 13th August, 1954.

REPORT ON ACCOUNTS FOR 1921-22

REPORT OF THE CENTRAL PUBLIC ACCOUNTS COMMITTEE ON THE ACCOUNTS FOR THE YEAR 1921-22.

*Government of India, Finance Department Resolution No. 37-A,
Dated the 15th January, 1924.*

Changes of classification during the year.

R. 8. In many of the cases where the accounts showed that the actual expenditure had exceeded the grant sanctioned, we found that the excesses were more apparent than real being due to one or both of the following causes:—

- (i) a change of classification in the accounts introduced after the demands were passed whereby the expenditure was accounted for under a head other than that under which funds had been provided for it; the most striking instance of this being due to the decision to show 'loss on exchange' under the various heads of expenditure, instead of under the separate head 'Exchange' where 903 lakhs had been provided for it.

(ii) * * * * *

R. 9. The complications arising from the change of classification during the course of the year under the head 'Exchange' will not disturb the figures in future. As a matter of principle we deprecate effect being given in the middle of the year to changes in classification of expenditure and of methods of accounting and trust that such changes will rarely, if ever, be made in future in the course of the account year.

5. The principle of this recommendation is accepted by the Government, viz., that no changes in classification should ordinarily be made* which will have the effect of accounting for expenditure under a head other than that in which funds have been provided for it.

*NOTE:— This is assumed to mean during the course of a Financial year.

See P.A.C. 1926-27, R12(1) and for 1941-42, R. 19.

Expenditure in England.

R. 10. * * * * * We are not quite convinced, however, of the necessity or suitability of separate grant for expenditure in England and suggest that the Government of India should consider the advisability of bringing the expenditure to account in India under the various demands into which it is at present sub-divided, thereby enabling the true expenditure on a given service, whether incurred in India or in England to be ascertained at a glance.

NOTE:—See P.A.C. 1922-23, R24 to 26 and for 1924-25, R. 48.

Excess caused by reduction of original grant.

R. 12. In our examination of the accounts of 1921-22 we have been struck by the fact that in many cases the actual expenditure though in excess of the final net grant and technically requiring to be regularised was within the original grant sanctioned by the Assembly. Apart from variations due to this cause under minor heads, we have noticed that under six of the demands (*viz.*, Taxes on Income, Irrigation and Waterways, Administration of Justice, Mines, Education and Miscellaneous Departments) under which there are excesses as compared with the final grants, the expenditure has fallen short of the original grants; and, in six more, (*viz.*, Land Revenue, other Scientific Departments, Public Health, Civil Works, Superannuation Allowances and Miscellaneous) there would have been no excess but for reductions sanctioned by the Assembly in passing the final Supplementary Demands placed before it by the Government in March.

R. 13. We understand that this somewhat curious result is due to the existing practice of basing the final voted grants for the expenditure of the year on the revised estimates of expenditure prepared by the Finance Department in connection with the next year's Budget, the original grants being supplemented or reduced under each separate head with the sanction of the Assembly. The Accountant General, Central Revenues, and the Auditor General have pointed out that this method is both inconvenient and inaccurate. In the year under review, the final supplementary demands were passed by the Assembly on the 11th March 1922, and reductions made could not be communicated to the spending officers till some time after the close of the year. As a result, there were many cases where the expenditure had been kept by the disbursing officers well within the original grants of which they were cognisant, but proved to have exceeded the final reduced grant of which they were informed only after the close of the year.

R. 14. In order to avoid this difficulty it has been suggested that the supplementary grants and reappropriations from one head to another when presented to the Assembly should not be based on the revised estimates at all; but should be framed in full consultation with the administrative authorities, the authorities actually responsible for the expenditure being given the fullest opportunity of expressing their views in the matter. This procedure, if feasible, might solve the difficulty but would, in our opinion, if extended to reappropriations inevitably prove very inconvenient as it practically involves the setting of the full budget machinery of the Government of India in motion twice over for this purpose.

R. 15. The other suggestion put before us, which we favour, is that no reappropriations should be proposed in placing the supplementary grants before the Assembly. A saving under one head is by itself no justification for an excess under another; and from the point of view of parliamentary control of expenditure, it is obviously undesirable to encourage under-spending under one head with a view to over-spending under another. If reappropriations from one demand to another were treated as a matter of course, there would be a great temptation to keep a margin of possible savings under some heads when preparing the budget.

R. 16. If this suggestion were adopted, the Government would place before the Assembly, in good time before the close of the financial year, a statement showing under what demands an excess in expenditure was necessary or desirable and would ask the Assembly for supplementary grants for these excesses. The Assembly would not be asked to sanction a reduction in any grant already made, but it would be the duty of the Government to point out at the same time what savings were, on the best information available at the moment, likely under other demands and to place before the Assembly any other facts such as an increase in anticipated revenue, which would affect the closing balance of the year.

R. 17. The chief advantage of this system would be that the Assembly, when asked for a supplementary grant, would have placed before it demands based on the representations of the administrative departments actually responsible for the expenditure and not on estimates of probable expenditure prepared mainly by the accounts officers and the Finance Department. It is easier to enforce the responsibility of a spending officer if he exceeds the estimates for which he is himself responsible than if he exceeds estimates he knows nothing about.

R. 18. We consider that this procedure will avoid most of the difficulties experienced at present. It may be argued that the actual reduction of a grant under any particular head may be of use in checking expenditure under that head. But, apart from the fact that the Assembly is not itself in a position to foresee savings under any head, and that it must depend on estimates furnished by the executive Government, it is not difficult to see that an actual reduction of expenditure can follow only if the saving is foreseen long before and the reduction in the grant communicated to the disbursing officers early enough. This, we are assured, is, in most cases, impracticable, as the total saving which may be foreseen has to be distributed under different sub-heads and communicated to various disbursing authorities. Most, if not all, of the advantages of an actual reduction of the grant can be obtained by the issue of orders to a Department to underspend its grant to a certain fixed extent. A grant cannot be exceeded without the sanction of the Assembly, and it ought to be the duty of the Finance Department of the Government when, during the course of the year, it becomes apparent that unexpected savings can be anticipated under that head, to fix a lower maximum to the spending department, any excess over which should be dealt with by departmental action if no sufficient explanation was forthcoming. Such an excess should be reported to the Public Accounts Committee by the Auditor General. [See P.A.C. 1921-22, R21; 1923-24, R10 and R16 and for 1925-26, R12.]

R. 19. When this system is in full working order, excesses ought not to occur in any but extraordinary circumstances. But if after the accounts for the year are closed, in spite of all precautions, the total grant under any demand has been exceeded, the excess ought to be regularised by a vote of the Assembly. The excess would naturally be examined, in the first instance, by the Public Accounts Committee, and in making a demand for an excess grant, the Government would place before the Assembly any recommendation that the Committee might desire to make. [See P. A. C. 1923-24, R10.]

7. The Governor General in Council accepts fully the procedure recommended by the Public Accounts Committee in respect of supplementary grants and excesses in expenditure.

Note:— For R-16-19 see P.A.C. 1933-34, RI-11.

It has since been decided that a grant once voted cannot be reduced by any authority, *vide* Government of India, Finance Department, letter No. D./4096 Ex. dated the 14th July 1925. [See also R.II-9 (ii)/1930-31].

Letter No. D./4096-Ex., dated the 14th July 1925, from the Government of India, Finance Department.

I am directed to refer to your letter No. 5535-B., dated the 2nd March 1925, in which the following questions are raised:

- (1) Whether the Legislative Council can, on its own motion, reduce a grant once voted.
- (2) Whether the existing practice of the Punjab Government in moving token demands for the increase of one grant by the reduction of the other is in order.

2. As regards (1) I am to say that once a demand has been voted by the Legislative Council there is no provision either in the Government of India Act or in rules made thereunder which permits of the grant being reduced on the motion either of the Government or of a non-official Member.

3. As regards question (2) the Government of India consider that the procedure is irregular, not because there is by implication a reduction of a grant, for there is no actual motion for reduction, but because the Government of the Punjab, in moving a token demand, ask for a sum which is less than the sum actually required and the Legislative Council in adopting the motion grants permission to the Government to spend an additional or supplementary sum which is less than the sum which the Government proposes to spend. The clear implication of the Legislative rules relating to supplementary or additional grants is that the demand for any such grant must be for the actual sum required.

4. Apart from this irregularity, there are, in the opinion of the Government of India, disadvantages arising out of a procedure under which proposals for re-appropriation are placed before the Legislative Council. In this connection I am to refer to paragraphs 15—18 of the report of the Public Accounts Committee on the accounts of the Central Government for 1921-22. Following the recommendation made by the Committee the Government of India no longer ask the Assembly to vote a reduction of an existing grant.

Fixing responsibility for excesses.

R. 20. Before leaving this part of the subject we desire to draw attention to the importance of impressing upon the actual disbursing officers the absolute necessity of obtaining funds from the Assembly before incurring expenditure on voted heads, for we feel that this was not sufficiently realised in the year 1921-22. Cases have come to our notice where expenditure has been incurred which could, so far as

we could see, have been postponed till funds had been provided for it by the Assembly; and we think that it is essential that means should be devised of effectively stopping irregular expenditure by making some officer of the Department responsible for excesses under each demand and of enforcing this responsibility when necessary. In this connection, the question was raised of the possibility of preventing excess expenditure by making it impossible for spending officers to get money in excess of a certain fixed sum without proper authority. We understand that there are great difficulties in the way of an absolute control in this matter owing to the large number of disbursing centres in India at which money has to be made available for expenditure. The matter, however, is so important that we would recommend that the suggestion should be carefully considered by the Government.

8. As has already been pointed out, the question of making a particular officer responsible for expenditure under each vote and of the measures to be taken to make such responsibility effective are already under investigation. The question of control by means of limiting money issues will also receive careful consideration but in the absence of a system of central issues as in the United Kingdom a solution is not easy. Disbursements from Central Revenues may occur in any of the treasuries in India or in England and may be brought to account in the books of any of the Provincial Accountants General or in the Home Accounts. One of the consequences of the large number of disbursing centres is that accounts cannot be absolutely up to date and it is often not possible to ascertain at any moment the exact expenditure debitable to a particular vote. As, however, the total grants voted by the Assembly are distributed among various sub-heads and funds are allotted separately to the actual disbursing authorities, the Governor General in Council is of opinion that some improvement may follow if these officers realise the absolute necessity of obtaining funds from the Assembly where their sanction is necessary, and from the executive Government in respect of non-voted items, before incurring expenditure, except in circumstances of such emergency as to justify the incurring of voted expenditure before the necessary vote can be obtained from the Assembly. The various Departments are therefore directed to take the necessary steps for this purpose and to obtain the previous approval of the Finance Department where for reasons of emergency it is proposed to incur voted expenditure in anticipation of a supplementary vote.

Note:— See P.A.C. 1922-23, R9; 1923-24, R21, 23-25 and for 1945-46, R6-7 and P 61.

The final orders on this subject are to be found in para. 10 of Government of India, Finance Department, Resn. No. D.-1089/A, dated the 1st June 1926 (See page 37 under paragraph 26 of 1923-24.)

Power of re-appropriation.

R. 21. Our attention has been drawn to the question of the powers of the Government to reappropriate within the same demand. It may be argued that as the Assembly in voting the total grant under any demand grants the money for the purpose detailed in the estimates placed before it, any important variations should be brought to the notice of the Assembly. When, for instance, money voted by the

Assembly for one purpose is utilised by Government for another purpose not approved of, or perhaps specially disapproved of by it, it may be considered that there should be some means whereby the Assembly could be seized of it. At present the Finance Department of the Government exercise in theory absolute powers of reappropriation, and there are various other authorities which have certain restricted powers. We notice, however, that these powers of reappropriation are, in practice, largely modified and controlled by the fact that all important items of new expenditure are placed before the Standing Finance Committee whether the expenditure can be met by reappropriation or requires a supplementary grant. Ordinarily the executive should, it is suggested, have power to vary the expenditure within a grant so long as they spend it within the purposes of the grant, and the remedy for preventing abuses of the powers of reappropriation is to split up the vote where such abuses occur into two or more votes.

9. *The Governor General in Council has carefully considered this question and agrees with the opinion expressed in the last sentence of this paragraph* * * * *

This is not only convenient in practice, but strictly correct in theory from the constitutional point of view as under Section 67-A (6) of the Government of India Act the Assembly assents or refuses its assent to the demand as a whole; any reduction effected in a reduction of the whole grant and so long as the executive keeps within the total grant, the Assembly is not concerned further with details of the expenditure. Cases in which expenditure is incurred for purposes not approved of or specially disapproved of by the Assembly or the Standing Finance Committee would, in the unlikely event of their occurring at all, be brought to notice by the Auditor General in the Audit and Appropriation Reports. In view also of the powers of intervention of the Standing Finance Committee, the Governor General in Council is of opinion that unless the present procedure is proved by experience to lead to evasion of parliamentary control, no change is called for.

Note:— See P.A.C. 1921-22, R18; 1922-23, R21; 1923-24, R26 and for 1926-27, R87.

Splitting up votes.

R. 22. This brings us to the question of parliamentary control over the large sums voted under the heads 'Railways' and 'Posts and Telegraphs'. In these particular cases, we consider that there is strong *prima facie* case for splitting up the vote and we recommend that the Government should consider, in consultation with its expert advisers, the most convenient method of placing the demands before the Assembly in order to make its control more effective. As regards the grant for Railways, it has been suggested that a separate demand may be made on account of each Railway. This would increase considerably the number of demands and might necessitate the allotment of a longer period of time than is allowed at present, for the discussion of the demands. An alternative suggestion is to have separate demands for the various sub-heads into which the present head is sub-divided, but some of the minor heads will still run into many crores. We are not at present in a position to express an opinion on the matters, but recommend that the possibility of sub-division of the demands should be carefully considered.

10. The question of sub-division of the demands under Posts and Telegraphs will be considered and if any alteration is found feasible, it will be given effect to as soon as possible. The similar question in the case of Railways must be considered in connection with the question of separating the Railway Budget from the ordinary Budget.

Note:— In 1924, the Railway Board, in consultation with the Finance Department and the Auditor General, sub-divided the then existing 2 demands under Railways into 15 separate demands (*vide* Railway Board File No. 137-A./Budget of 1925).

See P.A.C. 1927-28, R47; 1943-44, P9 and for 1944-45, R16 and P4. (1st sub-para).

Revision of pay with retrospective effect.

R. 25. The only other observation of a general nature that we have to make on the accounts is based on what has been represented to us as the cause of an excess over grants in one or two cases, viz., the revision of pay of establishments with long retrospective effect. We understand that at present the Government do not usually sanction increases of emoluments from a date long previous to the date of sanction, but we feel it desirable to place on record our opinion that any proposal to increase emoluments with retrospective effect should require strong justification.

12. The Governor General in Council accepts this recommendation and desires that all authorities who are competent to sanction revisions of pay should bear in mind that retrospective effect should not be given except in special circumstances.

Treatment of excesses when there are recoveries of expenditure.

R. 27. We notice that under this head, the excess in the gross grant is entirely explained by the adjustment of the loss on exchange and of expenditure in England on stores under this head. Consequently there would have been no excess but for these exceptional factors. On the other hand, the recoveries from Provincial Governments and the Department of Posts and Telegraphs which are taken as a reduction of expenditure considerably exceeded estimates partly for the same reason. There is a possibility in this and similar cases where there are recoveries taken as a reduction of expenditure that an excess over a gross grant may be covered by larger recoveries, so that there is no excess in the net grant under the head. We feel it therefore, desirable to place on record our opinion that in such cases an excess over the gross vote should require the sanction of the Assembly irrespective of the amount of recoveries. There may be converse cases where the recoveries are less than anticipated with the result that there is an excess in the net grant without an excess in the gross grant. Such cases too should, in our opinion, be reported to the Assembly for sanction.

13. The Government agrees with the opinion expressed by the Committee.

Note:—See P.A.C. 1922-23, R27 and for 1924-25, R8-11.

The final orders on the subject are contained in Government of India, Finance Department, letter No. F.22-XV-Ex.-II/27, dated the 5th November 1927.

Government of India, Finance Department, letter No. F.22-XV-Ex-II/27, dated the 5th November, 1927.

I am directed to invite a reference to paragraph 5 of this Department resolution on the Report of the Public Accounts Committee on the Accounts of 1924-25, No. D/1163, dated the 5th May 1927, regarding the treatment of gross and net grants in the Demands for Grants. Ever since the Central Public Accounts Committee first raised this point in their report on the accounts of 1922-23, the whole question has been under the careful examination of Government both from the constitutional and the accounting point of view. The conclusions as regards the legal aspect of the question are set forth in a note by the Auditor General, of which a copy is enclosed. A copy is enclosed also of the rules which he has issued, in exercise of his powers under rule 20 of the rules framed under Section 96-D (1) of the Government of India Act, for regulating the exhibition of recoveries of expenditure in the Government accounts. As it is essential that close conformity should be maintained between the Finance and Revenue Accounts and the general accounts on the one hand and the Appropriation Accounts and the Demands for Grants on the other, I am to request that the changes necessitated by this revised system of accounting may be introduced in the Demands for Grants of the Central Government with effect from the financial year 1928-29, and the estimates and demands for that year prepared accordingly.

2. Some difficulty is apprehended in the exhibition of the expenditure and recoveries of the Public Works authorities. It has accordingly been decided, subject to the observance of exception (ii) to rule 3 of the attached rules, to present the demand for gross grant and to show the recoveries by means of foot-notes.

Legal Position as regards Gross and Net Grants.

It is a fundamental principle of the Reformed constitution that all votable expenditure should ordinarily be submitted to the vote of the Legislature; that is to say, Government should not be in possession of funds for expenditure on a voted service which have not been voted and appropriated by the representative of the people for that Service. This means that the Demand shall be for gross expenditure and not for net expenditure after allowing for recoveries.

2. To this principle one qualification is admissible, namely, that where the money has been voted by another Legislature, or by the same Legislature in another part of the Budget, it is permissible to submit a net demand to the vote. The simplest example is a case of a contribution which is made by a provincial Government towards a Chief's College. The money has been actually voted by the local Legislative Council, and it is improper to ask the Legislative Assembly to vote the money over again. It has been shown in the Local Government's budget, and the proper course is for the Central Government, in submitting the Central Demand, to deduct this amount from the total expenditure. •

3. Again, take as an example, a case, in which the Central Government has asked a local Government to provide police guards over the

Currency Office, of strength greater than are ordinarily provided for the supervision of public offices in the province concerned. In that case the Central Legislature votes the money and it would be improper for the local Government to include it in its grant. It must, therefore, show the police expenditure first in gross and then deduct from it the amount contributed by the Central Government to pay this particular establishment.

4. Another case somewhat similar is the case of joint establishment employed upon agency subjects in which the cost of the establishment is, under Devolution Rule 48, from the beginning divisible between the Central and Provincial Governments. Each has to pay its own share, and the proper procedure is obviously for each to provide, in its own demand which it presents to its legislature, for the expenditure for which it is responsible, and for the Government which is primarily responsible for the particular establishment to show the expenditure firstly in gross and to deduct the amount provided by the other Government.

5. There is, however, an important proviso to the qualification enunciated in paragraph 2, viz., that a deduction of a sum voted elsewhere is not legitimate unless the two items are identical. The real test underlying the principle of identity of items is the incidence of expenditure at the time when it was sanctioned. If, at the moment when the expenditure was sanctioned, it was known that a particular Government must meet it, then the item in two budgets is identical and a deduction is possible. This principle is best illustrated by the following examples:—Taking the case of the Stationery grant of the Central Government the Central Government purchases a wholesale stock of stationery and then retails it to the local Governments. In that case there is no sort of identity between the two items. It is clearly right that the Central Legislature should vote the full amount for the wholesale purchase and the local legislatures for the full amount of retail purchases whenever the local Government may make it. The recovery when made should be shown as revenue to the Central Government. Another case is that of Excise Opium. There again the Central Government spends money on preparing opium and then sells it to the local Governments. In neither of these cases is a deduction or a net grant properly admissible.

6. The principle mentioned above may be summarised in the following formula:—

When a recovery from another Government represents nothing more than the debit to that Government of expenditure which was properly so debitable from the moment when the expenditure was sanctioned, the recovery does not represent revenue, and a net grant should be presented. Recoveries of all other kinds do represent revenue. They should be shown as such and the grant for expenditure should be gross.

7. This formula has been extended a little further in this way. That when an item which could, at the time when it was sanctioned have been shown by deduction, is for some reason or other not included in the accounts of that year, but is postponed to a later year

in that case the identity vanishes and the particular item must be shown as revenue.

8. Another class of cases in which deductions are legitimate is that of expenditure voted by the same Legislature in a different part of the Budget. There are numerous cases specially in connection with departments whose accounts have been or are being commercialised where it is necessary to show the same expenditure twice over in more than one demand for grants presented to the Legislature. In such cases it is desirable, in order to avoid inflation of the figures, that a sum voted under one grant should appear as a deduction from expenditure in the second grant. In these cases the expenditure should be shown in the Demands for Grants both gross and net, but only the net expenditure should be submitted to the vote.

9. It will be seen that the effect of the decisions referred to above is that in no case it is possible for any legislature to vote one grant both gross and net. If deductions are legitimate they must be made. Then there will be a net grant and the legislature is not entitled to vote the gross grant because it involves voting what has been voted by another legislature. On the other hand, when it does vote net grants one thing is essential, and that is that it should have the gross figures before it so that it may know the effect of what it is doing.

Rules for regulating the exhibition of recoveries of expenditure in Government Accounts [issued by the Auditor General in exercise of powers conferred upon him by Rule 20 of the rules framed by the Secretary of State in Council under Section 96 D (1) of the Government of India Act].

1. These rules shall come into force with effect from the accounts for 1928-29.

2. The term "recoveries" as used in these rules should be understood in the sense of repayments by another Government Department or an outside body, or person of expenditure initially borne by a Government Department and recorded as such in its account.

3. Recoveries from private persons or bodies (including local funds, Indian States and Governments outside India) should, as a general rule, be treated as revenue and not as deduction from expenditure.

Exceptions.

(i) When a Government undertakes a service merely as an agent of a private body so that the entire cost of the service is recovered from that body, the net cost to Government being nil, the recoveries may be taken in reduction of expenditure.

(ii) Recoveries of expenditure on works in progress and transactions of stock and other suspense accounts:—

The technical estimates take cognisance of all anticipated receipts from sale proceeds of materials, plants, etc., received from the old structure, while the receipts under

"Stock and Suspense" are by their very nature inseparable from the expenditure recorded under the main head. It is, therefore, proper that recoveries falling under these two categories should continue to be treated as reduction of gross expenditure.

4. As between two or more Governments as defined in Article 33-A of the Civil Account Code:—

- (a) If the recoveries represent no more than debits to another Government of expenditure which was so debitable from the moment it was sanctioned, they should not be treated as revenue of the Government effecting the recoveries but as deduction from expenditure.
- (b) In the case of joint establishments where the expenditure is not shared by two or more Governments 'ab initio' but is incurred by one of the Governments and partially repaid by the others, the repayment if made while the accounts of the year are still open, should be treated as deduction from expenditure.
- (c) Recoveries of the classes falling under (a) and (b), if effected after the closing of accounts of the year in which the expenditure was incurred, should be treated as revenue.
- (d) All other recoveries should be credited as revenue of the recovering Government, whenever they are received.

5. As between different departments of the same Government, the recoveries should be treated as deduction from the gross expenditure except such recoveries as are made by a Commercial Department, which should be treated as receipts of that department.

Note:—The term 'recoveries by a Commercial Department' for the purpose of this rule is intended to apply to recoveries in respect of services rendered to other departments in pursuance of the proper functions for which the department is constituted; that is to say, in the case of the Posts and Telegraphs Department, recoveries will be treated as receipts only when they are made in respect of Postal, Telegraph or Telephone services rendered to the other departments. Where, however, a Commercial Department acts as an agent of another department for the discharge of functions not germane to the essential purpose of the Department, the recoveries should be taken in reduction of expenditure.

6. Notwithstanding anything to the contrary that may be provided by or under these rules, receipts and recoveries on Capital Account in so far as they represent recoveries of expenditure previously debited to a capital major head should be taken in reduction of expenditure under the major head concerned, except where, under the rules of allocation applicable to a particular department, such receipts have to be taken to revenue.

7. In case of doubt or dispute, the authority to decide whether any particular recovery is classifiable as revenue or as deduction from expenditure under the above rules rests with the Auditor General.

Tour expenses of Executive Council.

R. 29. We have also noticed the excess under Executive Council which has been explained as due to tour expenses. We would suggest that a proper estimate of tour expenses of Members of the Executive

Council should be made and some central authority charged with the duty of watching the expenditure and of seeing that, when excesses were likely, a supplementary grant is obtained.

15. *The suggestion is accepted. The Home Department will, in future, watch the expenditure.*

Note:—See P.A.C. 1925-26, R10 (Item 2).

Classification of expenditure on Committees.

R. 30. We note that the excess under the head 'Legislative Assembly' is partly due to the cost of the Racial Distinctions Committee and the Railway Finance Committee being taken under this grant. We are not quite satisfied that expenditure on Committees appointed otherwise than by the Assembly and containing persons who are not members of the Assembly should be taken against this vote and suggest that the question of the correct classification of the expenditure be further considered.

16. *The Governor General in Council is of opinion that expenditure only on Committees appointed by the Assembly and reporting to it should be charged against the vote for the Assembly. The Auditor General will be asked, if he has no objection, to record under another head the expenditure on Committees appointed otherwise whatever their composition and whether they are appointed by Government on their own initiative or at the initiative of the legislature.*

Note:—In the Government of India, Finance Department Memorandum, No. 886 A., dated the 18th November 1923, it was decided in consultation with the Auditor General, that the cost of only such of the Committees as are appointed by either the Legislative Assembly or the Council of State, with instructions to report to it, should be debited to their respective budget grants. The cost of other Committees, whatever their relation with either chamber, should be debited to the head "47 (now 57)—Miscellaneous—Special Commissions of Enquiry."

Expenditure on behalf of the Posts and Telegraphs Department.

R. 35. There are serious excesses under Stationery and Printing in this vote, but the representative of the department who gave evidence before us disclaimed all knowledge of or responsibility, in connection with this, on the ground that the Controller, Stationery and Printing, supplied the stationery and charged for it at the usual rates. We are of opinion that arrangements should exist in every department to watch all expenditure whether directly incurred by the Department or by an agent acting on its behalf. We trust the appointment of a Financial Adviser to the Posts and Telegraphs Department will lead to an improvement in this case.

21. *The Director General, Posts and Telegraphs, should consider the remarks in paragraphs 35-36 of the report and the minutes of the 7th meeting of the Committee.*

Note:—This point was subsequently merged in the general question of control over expenditure *vide* paragraphs 18-19 and 21-26, of the Public Accounts Committee's report for 1923-24, the final orders on which are to be found in paragraph 10 of the Government of India, Finance Department, Resolution No. D.-1089-A dated the 1st June 1926. (See page 37 under paragraph 26 of 1923-24).

Stores charged to Capital.

R. 40. Our attention was also drawn to the fact that the amount of stores at any time standing charged against the Suspense Item in the Capital Account is to some extent dependent on the amount provided for the grant for Railways chargeable against the revenue of the year. The practice has been to place orders for such items as wagon parts, etc., which are required for renewal purposes some time before the beginning of the financial year on the basis of the demands originally put forward by the Railway Agents. These stores are, for convenience debited in the first instance to the Suspense Item in the Capital Account, and this item is afterwards cleared as the stores are taken over for the renewal programmes of individual Railways. If, however, the grant originally demanded is cut down by the Finance Department or by the Assembly, as has happened in the current financial year for example, the result is that the stores remain charged to Capital for an unduly long period. During this period interest has to be paid on such capital, and the wagons, etc., remain idle and possibly deteriorating in store earning no revenue even though they may be badly needed for carrying traffic. The revenue accounts of the year show an apparent reduction in expenditure. But this is obtained not only without any saving whatever to the Indian tax-payer but actually at the cost of some loss of revenue, which might otherwise have been earned simply by bringing the wagons out of store and putting them to use. It is clear that the system is at fault. We are glad to learn that the new Financial Commissioner on the Railway Board is taking up this question.

22. *The attention of the Railway Board and the Financial Commissioner, Railways, is directed to the points raised in paragraph 40 and the minutes of the 5th and 7th meetings.*

Note:— The position improved materially when the Convention for the partial separation of Railway from ordinary finance was accepted.