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CORRIGENDA

Fifty-Fifth Report of the Estimates
Committee on the Ministry of Finance
-- Department of Expenditure.

- Page 4, Para 9, Line 4, read
'thoroughly' for 'throughly'.
Page 4, Para 9, Line 9, read 'past'
for 'post'.
Page 11, Para 28, Line 2, delete 'of'
before 'each major contract'.
Page 20, Para 56, Line 3, read
'responsibility' for 'repositibility'.
Page 22, Para 63, Line 2, read 'First'
for 'Frist'.
Page 22, Para 63, Line 3, read
'undertakings' for 'undertakigs'.
Page 22, Para 63, Line 3 from bottom,
read 'consultation' for
'consultation'.
Page 22, Para 63, Line 3 from bottom,
read 'submit' for 'sumbit'.
Page 29, S.No.4, Line 5, read
'unsatisfactory' for 'unsatifactory'.
Page 31, S.No.8, Line 7, read 'Ministries'
for 'Ministees'.
Page 32, S.No.12, Line 13, read
'knowledge' for 'knowlegge'.
Page 35, S.No.23, Line 11, read
'exercised' for 'excercised'.

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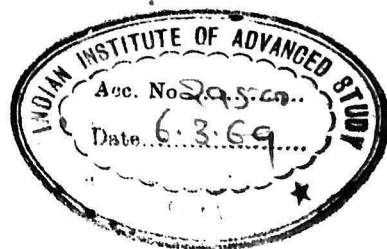
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1958-59

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SECRETARIAT

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Shri A. R. Shirali—*Deputy Secretary.*

Shri R. K. A. Subrahmanya—*Under Secretary.*

*Elected w.e.f. 28-8-1958 vice Shri Mahavir Tyagi resigned.

**Elected w.e.f. 17-9-1958 vice Shri J. Rameshwar Rao resigned.

***Elected w.e.f. 23-9-1958 vice Shrimati Renuka Ray resigned.

****Elected w.e.f. 23-9-1958 vice Shri Nemi Chandra Kasliwal resigned.

*****Elected w.e.f. 17-12-1958 vice Shri Vijayram Raju resigned.

INTRODUCTION

I, the Chairman, Estimates Committee, having been authorised by the Committee to submit the Report on their behalf, present this Fifty-fifth Report on the Ministry of Finance (Department of Expenditure).

2. The Committee wish to express their thanks to the Secretary and other officers of the Department of Expenditure for placing before them the material and information that they wanted in connection with the examination of the estimates. They also wish to express their thanks to the Secretaries of the Ministries of Commerce & Industry, Rehabilitation, Irrigation & Power, and Works, Housing & Supply, and the Special Secretary, Ministry of Finance (Department of Economic Affairs) for giving evidence and making valuable suggestions to the Committee. They also thank Sarvashri S. Ratnam, formerly Secretary, Department of Expenditure, and S. V. Ayyar, Retired Chief Cost Accounts Officer, Ministry of Finance, for assisting them by giving the benefit of their views on various questions relating to the examination of the estimates.

BALVANTRAY G. MEHTA,

NEW DELHI ;

The 28th April, 1959

8th Vaisakha, 1881 (S).

Chairman,

Estimates Committee.

INTRODUCTORY

The Ministry of Finance consists of three Departments, viz., the Department of Economic Affairs, the Department of Revenue and the Department of Expenditure. Of these, the Department of Expenditure is mainly concerned with the administration of expenditure control except in the case of the Ministry of Railways. The Department of Expenditure is under the overall charge of a Secretary and consists of—

- (a) 7 Civil Expenditure Divisions under an Additional Secretary and six Joint Secretaries;
- (b) the Defence Expenditure Division under an Additional Secretary who is assisted by two Joint Secretaries;
- (c) the Establishment Division under a Joint Secretary; and
- (d) the Economy Division under a Joint Secretary.

The Department of Economic Affairs has within it a Budget and Planning Division in charge of a Special Secretary who is assisted by a Joint Secretary and an Additional Budget Officer. This Division is also concerned with the system of control over expenditure, through the scrutiny of the Budget.

2. The Committee have examined in this Report the organization and functions of the Department of Expenditure as also certain aspects of the Budget Division of the Department of Economic Affairs in so far as they relate to expenditure control. They had earlier made certain recommendations in their 26th Report (Second Lok Sabha) in regard to the Defence Expenditure Division of the Department of Expenditure, which will not, therefore, be referred to specifically in this Report but the general problems dealt with herein are of equal applicability to that Division.

II

EXPENDITURE DIVISIONS

A. Functions

3. The Expenditure Divisions of the Department of Expenditure are responsible for giving financial advice to the various Ministries of the Government of India. Their responsibilities were re-determined last in August 1958 when the financial powers of the administrative Ministries were increased. Under this arrangement the concurrence of the concerned Expenditure Division is required before including any proposal for expenditure in the Budget. Its concurrence is also required for incurring expenditure on schemes costing over Rs. 50 lakhs and for making substantial variations in schemes costing less than Rs. 50 lakhs after the budget is approved by Parliament. The concurrence of the Department of Expenditure is not required by the administrative Ministries in incurring expenditure on schemes costing less than Rs. 50 lakhs, subject of course, to Budget provision. These arrangements do not, however, apply in the case of the Ministry of Defence for expenditure debitable to Defence estimates for which a modified scheme is stated to be under consideration.

4. As a result of the delegation of financial powers to administrative Ministries, the latter have been provided with Internal Financial Advisers for giving financial advice. The Internal Financial Advisers are responsible wholly to the Secretaries of the respective administrative Ministries, but their financial advice can be overruled only by the Minister of that Ministry, in which case a report to that effect has to be made to the Secretary, Ministry of Finance and the Comptroller & Auditor-General. The officers in the Department of Expenditure, i.e., Joint Secretaries, Deputy Secretaries and Under Secretaries are responsible for giving advice on matters which require concurrence of the Ministry of Finance.

5. The arrangements referred to in paras 3 and 4 above have resulted in the: (a) creation of additional posts of one Additional* Secretary and three Deputy Secretaries in the Department of Expenditure and (b) transfer of the existing posts of two Joint Secretaries, 13 Deputy Secretaries, 2 Finance Officers, 21 Under Secretaries, 1 Assistant Finance Officer, 34 Section Officers, 113 Assistants|U.D.Cs. and 84 L.D.Cs. from the Ministry of Finance (Department of Expenditure) to the Internal Financial Wings of the administrative Ministries. Of the officers retained in the Department of Expenditure,

*At the stage of factual verification it was pointed out that the sanction of the post of Additional Secretary was not a result of the arrangements referred to in the earlier paragraphs but was separately decided upon as a result of the view taken that for the Hindustan Steels and the Department of Iron and Steel a more senior officer than a Joint Secretary was necessary.

1 Additional Secretary and 3 Joint Secretaries have also been designated as Internal Financial Advisers of the respective administrative Ministries. They are responsible to the respective Secretaries of administrative Ministries in respect of powers delegated to these Ministries and for the rest to the Secretary of the Department of Expenditure. After this re-organization the Department of Expenditure (excluding Defence Expenditure Division) consists of the following:

Secretary	1
Addl. Secretary	1
Joint Secretaries	8
Deputy Secretaries	13
Finance Officer	1
Under Secretaries	26
Asstt. Finance Officer	1
Section Officers	38
Asstts./U.D.Cs.	174
L.D.Cs	170

B. Objects of Scrutiny

6. The Committee were informed that the scrutiny exercised by the Department of Expenditure over the expenditure proposals of administrative Ministries was aimed at securing economy in expenditure and that it had two objects:

- “(i) that no services are included that are not needed—this is economy in matters of *Policy*; and
- (ii) that in the provision for needed services, there is no extravagance—this is economy in matters of *detail*.”

7. The initiative and primary responsibility in regard to policy matters and for inclusion of schemes in the Budget, normally rest with the administrative Ministry within whose sphere that particular matter falls. The Finance Ministry is expected to co-ordinate the competing demands of the various Ministries and to limit them with reference to the availability of overall resources. This role of the Finance Ministry is, however, largely influenced by the policies and decisions laid down by the Planning Commission in the Five Year and annual plans.

8. The Committee were informed that the Ministry of Finance was generally consulted before a scheme was included in the Plan. The Finance Minister was a Member of the Planning Commission and papers to be considered by the Planning Commission were generally circulated to the concerned officers of the Ministry of Finance who could, if necessary, bring to the notice of the Finance Minister any matter relevant to the question under discussion. However, it was stated, the Ministry of Finance could contribute very little at that stage because the details of the schemes to be included in the Plan were generally not available. Notwithstanding this fact, the Planning Commission framed the Five Year Plans and the Annual Plans which clearly indicated in advance the schemes and projects to be taken up. According to the representative of the

Ministry of Finance, the inclusion of a scheme in the Plan was in itself no authority for including it in the Budget and for undertaking its execution. According to him, it would need to be examined and processed further within the administrative Ministry and concurred in by the Finance Ministry before any commitments could be made. *Nevertheless, it is evident that after a policy or a scheme is included in the Plan, the scope for examining the propriety or necessity of that policy or scheme would be limited.*

9. *The Committee consider it highly unsatisfactory that the Ministry of Finance should undertake the financial scrutiny of a scheme after its inclusion in the Plan. Elementary commonsense indicates that financial aspects of a scheme or project should be thoroughly examined prior to its consideration by the Planning Commission so that all aspects, among which financial aspect is no doubt important, are before the Commission and the approved plan is realistic. The Committee have no doubt that this neglect on the part of the Finance Ministry has led to certain grievous errors in the past, e.g., the* Steel Projects and the Dandakaranya Scheme were included in the Plan and later in the Budget without adequate financial scrutiny. The Committee recommend that every paper prepared at the planning stage by an administrative Ministry for approval either by the Minister concerned or the Planning Commission or the Cabinet should be accompanied by a note by the Internal Financial Adviser of the Ministry in regard to the financial implications of the policy or the scheme in question. The financial implications together with broad details of the schemes under examination should be made available to the Finance Ministry to enable the Minister of Finance, as a Member of the Planning Commission and the Cabinet, to explain the full financial implications of a policy or scheme to the Commission or the Cabinet before approval is given by them.*

C. Scrutiny of Estimates

10. The Budget Estimates prepared by administrative Ministries are broadly divided into three parts—(1) Standing Charges, (2) Continuing Schemes, and (3) New Schemes.

(i) Standing Charges

11. The Committee were informed that the expenditure on Standing Charges which comprise pay, allowances and honoraria of permanent establishment and office contingencies formed a small portion of the total expenditure. The departmental estimates in this respect were not scrutinised by the External Financial Adviser of the Department of Expenditure and were sent by the administrative Ministry direct to the Budget Division of the Department of Economic Affairs. A copy of these estimates was also simultaneously sent to the Accountant General concerned who verified the amounts with reference to sanctions and past actuals and trends. Such a mechanical check though necessary in itself offers possibilities of reducing the budget provision on

Thirty Third Report of the Estimates Committee (Second Lok Sabha) on the Ministry of Steel, Mines & Fuel—Hindustan Steel Limited.

allowances, especially travelling allowances and contingencies in a minor way, but this can in no way lead to real economy. It is not correct to say that the expenditure on the permanent establishment being a fraction of the total expenditure of Government offers little scope for economy. It must be remembered that year after year more and more staff are brought on to the permanent establishment and the expenditure on contingencies shows an upward trend, the scope for economy widens and the need for real scrutiny becomes urgent. The responsibility on the Budget Division devolves in a greater measure when it is realized that, as stated in evidence before the Committee the administrative Ministries hardly undertake any review of Standing Charges. *The Committee consider that notwithstanding the responsibility of the Budget Division the administrative Ministries have an important responsibility in the control of Standing Charges and, for that purpose, they should conduct properly directed periodical reviews. The Ministry of Finance should call for these periodical reviews and have them thoroughly examined by its Economy Division with a view to exploring scope for economy well in advance of the approval of the Estimates. The Committee also recommend that the results of such reviews should be embodied in the annual reports of the Ministry and their monetary values indicated clearly and co-related with the estimates in question.*

(ii) Continuing Schemes

12. The Committee were informed that the estimates of continuing schemes prepared by the administrative Ministries were subjected to a scrutiny in the Department of Expenditure with reference to the progress already made, the commitments entered into, the trends and programme of execution of work for the following year. To some extent this scrutiny was of a continuous type with reference to the performance during the previous year. In this connection, the Secretary of an administrative Ministry who appeared before the Committee admitted that even though continuing schemes were in theory supposed to be continuously reviewed, in practice, so far as his Ministry was concerned, such review was seldom carried out unless there was a material variation between the estimates and the actual cost of the schemes. Even in such cases the review was made only at the Budget stage. The Committee are surprised that there should be such wide gulf between theory and practice and that the situation should be allowed to deteriorate before steps are taken to arrest it and thus, as experience has shown it, there have been cases in which actual expenditures have far exceeded the estimates (and in some cases even the revised estimates). *The Committee recommend that in accordance with the procedure laid down, continuing schemes should be periodically and systematically reviewed by the administrative Ministries and their Internal Financial Advisers with the assistance of technical and other experts and that such reviews should be called for and taken into account by the Ministry of Finance during the pre-Budget*

scrutiny of such schemes. Cases of non-compliance with this procedure by any administrative Ministry should be reported by the Finance Ministry to the Cabinet for such action as they consider necessary.

(iii) *New Schemes*

13. The General Financial Rules of Government prescribe that no scheme involving new expenditure should be included in the Budget unless it is complete and finally approved. In this connection, the Secretary, Department of Expenditure stated that the Finance Ministry was sometimes placed in a dilemma because schemes which had to be put through without delay came to the Ministry without adequate particulars and the information that would be necessary for the examination of the proposal would not be available till the relevant project report was ready. As the administrative Ministry did not like to wait till such examination was complete because there was emphasis on completing a scheme quickly, it insisted on inclusion of the scheme in the budget on the basis of such details as were available. The Secretary, Department of Expenditure, further stated that even though the arrangement of delegation of financial powers introduced in August 1958 envisaged that no scheme which had not been scrutinised should be included in the budget, it had not been found possible to observe this principle fully in regard to the budget for 1959-60.

14. The Committee were informed that generally there was inadequate pre-Budget scrutiny for want of details in the case of schemes costing above Rs. 20—30 lakhs. In particular, they were told that when the Steel Projects were commenced, detailed projects estimates were not available. Recently, the Dandakaranya scheme had also been started without details being available. The Committee have already pointed out in their Thirty-Third Report how the costs of the Steel Projects have risen phenomenally. They fear that schemes subjected to inadequate pre-Budget scrutiny might suffer from the same defects.

15. Since oftentimes schemes are included in the budget without prior scrutiny, it becomes necessary for the Ministry of Finance to undertake their examination after the budget has been passed and before they are actually executed, so that unless and until expenditure sanctions are issued with the concurrence of the Ministry of Finance, no part of expenditure can be incurred. Such a procedure very often takes considerable time and by the time the expenditure sanction is issued, delay has already taken place. *The Committee fail to see what good it does either to the administrative Ministry or the Finance Ministry to bypass the prescribed procedure and to dispense with pre-Budget scrutiny.*

16. *The Committee regard it unsatisfactory that the Finance Ministry should allow itself to be hustled in this way into accepting raw and ill-conceived schemes for inclusion in the Budget. Such a procedure*

obviously results in presenting rough estimates to Parliament which may eventually prove to be wrong estimates, laxity of control over the financial aspects of the schemes and eventual delay in the execution of the schemes. The Committee are of the view that the Finance Ministry has a duty and a responsibility to ensure that no scheme which has not been scrutinised is included in the Budget. In case such schemes mature during the course of a year and are required to be taken up urgently, Supplementary Demands could always be presented.

(iv) Grants-in-aid

17. Apart from specific projects or schemes included in the Budget there are certain other kinds of activities for which Government assumes responsibility but which are entrusted to quasi-Government or private agencies, the expenditure being met wholly or partly by Government by way of grants-in-aid. Such grants-in-aid are spread over almost all the Ministries, more particularly the Ministries of Education, Health, Scientific Research and Cultural Affairs, etc. Explaining the nature and extent of control exercised over such grants-in-aid the Secretary, Department of Expenditure, stated that the Ministry of Finance ensured that the object for which the grant was proposed was a proper and valid object and that the grantee deserved the grant. Where such grants were of a continuing type, the administrative Ministry concerned obtained a certificate from the grantee that the grant had been utilised for the purpose for which it was sanctioned and these were generally taken into account before sanctioning grants for future years. *Considering, however, the fact that the expenditure is actually incurred by the outside bodies over which Government has no direct control, the Committee feel that the checks exercised at the pre-Budget stage are more with reference to the policy and the size of the grants rather than with reference to the actual use to which the grants have been put by the grantees and the benefits derived therefrom. In the circumstances, the Committee doubt whether there is any financial control, both executive and Parliamentary, over the expenditure incurred by way of grants-in-aid out of public revenues. The Committee recommend that the concerned administrative Ministry and its Internal Financial Adviser should obtain annually a performance or achievement report from the grantee in respect of each grant and with the assistance of some leading non-officials interested in the object of the particular grant, review annually its utilisation so as to regulate the payment of the grants-in-aid in future. The Committee recommend that a review on the utilisation of the grants-in-aid specifying in detail the achievements vis-a-vis the amounts spent should be included in the annual report of the Ministry concerned.*

18. *The extent of scrutiny exercised in respect of contributions to international bodies is even less since they are treated as obligatory payments on account of international agreements. The amount of such payments vide annexure XVII of the Explanatory Memoranda to the Budget documents for 1959-60, is over Rs. 3 crores annually.*

The Committee recommend that in regard to such payments also the administrative Ministry concerned should attempt a periodical review of the benefits flowing therefrom in its annual report.

19. *In this connection, the Committee also invite attention to the fact that in U.K. all grants-in-aid and contributions to international bodies are broadly indicated in Part I of the Estimates of a Ministry and as such reproduced in the Appropriation Act which is enacted by Parliament. Such a procedure serves to pinpoint the extent of grants given to non-governmental bodies most of which are outside the purview of the Comptroller & Auditor-General. The Committee recommend that such a procedure be adopted in India also.*

(v) *Re-classification of Estimates*

20. It is observed from the preceding paragraphs that estimates of expenditure are actually prepared in the Ministries, Departments, etc. in the form of Standing Charges, Continuing Schemes and New Schemes. When they are finally approved by the Ministry of Finance, they are re-classified in the following form:

Pay of Officers

Pay of Establishment

Allowances and Honoraria

Other Charges.

21. This classification was devised during the days of the British rule in India, because the then Legislature wanted to know what proportion of expenditure was spent by the rulers on the Pay of Officers *vis-a-vis* Establishment as the former consisted of British personnel mostly and the latter of Indian personnel. Also, they wanted to know the proportion of expenses on Office Contingencies, Equipment, etc., compared to the staff. Such a classification had some meaning in the then circumstances especially when Government was not responsible to the Legislature and the object of the Government was to maintain law and order and the minimum maintenance services. *Now that the country has launched a gigantic economic development of the country and the whole context of budgeting has changed, the old classification has no meaning. The Committee, therefore, consider that the present classification in Budget Papers should be changed. Accordingly, they recommend that the classification of estimates should be as follows:—*

Standing Charges

Pay of Officers and Staff

Allowances of Officers and Staff

Office Contingencies

Other Items. (Specify major items costing over Rs. 10,000 each).

Continuing Schemes

Scheme No. 1 (Name of Scheme)

Pay of Officers and Staff

Allowances of Officers and Staff

Office Contingencies

Other Items. (Specify major items costing over Rs. 10,000 each).

Scheme No. 2 (Name of Scheme)

Scheme No. 3 (Name of Scheme)

New Schemes

Scheme No. 1 (Name of Scheme)

Pay of Officers and Staff

Allowances of Officers and Staff

Office Contingencies

Other Items. (Specify major items costing over Rs. 10,000 each).

Scheme No. 2 (Name of Scheme)

Scheme No. 3 (Name of Scheme)

D. Nature of Scrutiny*(i) Departmental responsibilities*

22. The Committee were informed by the Secretary, Department of Expenditure, that it was the responsibility of the administrative Ministry to prepare the estimates correctly. The estimates so prepared are, under the present arrangements, subjected to pre-Budget financial scrutiny twice—once by the Internal Financial Adviser of the administrative Ministry and again by the External Financial Adviser in the Ministry of Finance. In justification of the second scrutiny in the Ministry of Finance, the Secretary, Department of Expenditure, told the Committee that however competent an Internal Financial Adviser might be, the peculiar circumstances in which he had to work in the administrative Ministry would make it difficult for him to exercise that independence and judgment in the scrutiny of schemes as would be possible for the Ministry of Finance to do. It was also noted by the Committee from the evidence of some administrative Secretaries that they too were not willing to take over the responsibility for pre-Budget scrutiny of schemes without the concurrence of the Ministry of Finance. Obviously, this would lead to blurring of responsibilities which it is desirable to avoid.

23. *The Committee feel that since the scheme of internal financial advice was put into effect only six months ago, it is yet too early to come to any final judgment. The Committee would, however, like that before an opinion is formed, a list of the lapses on the part of internal financial advisers is prepared to assess the true worth of that advice vis-a-vis the advice given by the Ministry of Finance in similar circumstances. The Committee also recommend that wherever estimates go wrong, re-appropriations take place, demands for additional funds as a result of increase in costs of schemes are made, Supplementary Demands are asked and lapses of funds take place, a regular post-mortem should be held to determine the reasons which led to the wrong estimates and to fix responsibility therefor. The lessons learnt from such an examination, if pooled and circulated to all Ministries, would undoubtedly improve preparation and scrutiny of estimates in future.*

24. *The Committee understand that although instructions had been issued that schemes should be submitted to the Department of Expenditure for scrutiny throughout the year, so as to prevent pre-Budget rush, the Department of Expenditure had actually in a limited time to scrutinise a large number of schemes. For this purpose, 4 posts of Deputy Secretaries had been created in the Department of Expenditure for three months to cope with the rush for scrutiny of schemes. This instance indicates how regular staff can remain without full quantum of work for major part of the year and how extra staff has to be employed because of lack of method and co-operation between the various Ministries of Government apart from the fact that financial scrutiny conducted by the temporary officers in a limited time at their disposal must be of inferior type.*

(ii) *Agreements and Contracts*

25. A large volume of expenditure is incurred indirectly by way of contracts and agreements entered in connection with the implementation of schemes. These contracts may be for collaboration in a venture for technical advice, for works, for supplies, for credit, etc., and may be with foreign parties or Indian parties.

26. The Secretary, Department of Expenditure, explained during evidence that by and large contract documents in respect of works and supplies had been standardised. He added that while every effort was invariably made to secure the best interests of Government in certain cases, especially where foreign parties were involved, little choice was left due to the dependence of the country in various matters on foreign technical assistance and know-how and Government had to accept the terms of the parties concerned. The Committee are not, however, convinced that this plea would explain the undesirable provisions of the various contracts and agreements entered into by Government, e.g., those in connection with the Steel Projects (33rd Report—Second Lok Sabha), Ordnance Factories (68th Report—First Lok Sabha), Bharat Electronics Private Limited (39th Report—First Lok Sabha) etc.

27. *The Committee, therefore, reiterate the suggestion made by them in their Report on the Ministry of Steel, Mines and Fuel—Hindustan Steel Limited (Thirty-third Report—Second Lok Sabha) that all negotiations for large agreements and contracts should be conducted by a Committee of technical as well as financial experts rather than by individuals. They suggest in this connection that the financial aspects of all big contracts and agreements should before their finalisation be got examined by a team of financial experts instead of by a single Financial Adviser who is generally associated with the negotiations. The Committee suggest that a record should be maintained of the negotiations as well as examinations so conducted so that the attempts that were made by the negotiators for securing better terms would be available on record.*

28. *The Committee further recommend that a history-card of each major contract and agreement entered into so far and in future by or on behalf of the Government be prepared indicating therein the various steps through which the negotiations passed, the difficulties which were encountered, how they were overcome and other particulars. Such a record and its analysis would provide safeguards against recurrence of the same defects while entering into contracts and agreements in future.*

(iii) *Methods of Scrutiny*

29. *The scrutiny of expenditure proposals on behalf of the Ministry of Finance is conducted by the different Financial Advisers and their staff who work practically independently of each other. The Committee, therefore, inquired whether this arrangement resulted in financial scrutiny in respect of expenditure proposals of different Ministries being exercised according to different standards and whether the system and procedure of financial scrutiny could be standardised. The Committee were told by the Secretary, Department of Expenditure, that financial scrutiny was nothing more than the application of commonsense with a bias towards economy and that in that sense there could be no specialised science of expenditure control. The Committee recognize that it is difficult to lay down any uniform standards of financial scrutiny, particularly when the machinery of Government is so complex and their activities so varied and vast. Nevertheless they feel that a system of training of all financial advisers in the methods and application of financial scrutiny should be devised. The Committee also recommend that there should be a common cadre of financial advisers who man the posts in the Ministry of Finance, Internal Financial Wings of Ministries and Finance and Accounts Departments of public undertakings. The officers should be liable to transfer inter se so that the knowledge and experience gained by them in one post may prove of use to them in similar appointments elsewhere. This suggestion has been further elaborated in Chapter VI.*

30. *One of the common criticisms made in respect of the scrutiny of schemes, etc. in the Ministry of Finance is that it results in considerable delays. The Committee have also heard it alleged that the officers of the Ministry of Finance are inclined to raise piecemeal queries and*

objections again and again with the result that cases tend to get delayed ultimately. The Secretary of the Ministry explained that the O. & M. Division had made an investigation into the causes of delay and had reported that the delay occurred more in the administrative Ministries than in the Finance Ministry. The Secretary of the Department of Expenditure further stated that he had impressed on all his officers the necessity of making complete scrutiny at one stage rather than piecemeal. *The Committee recommend that Secretaries of administrative Ministries may once a quarter send a list of cases in which delays have taken place or in which objections were raised piecemeal to the Secretary of the Department of Expenditure in order to enable the latter to investigate into the cases in a concrete manner and to take suitable action against those who are responsible for them.*

E. Co-ordination with Budget Division

31. The Budget estimates of all Ministries and Departments of Government after scrutiny and concurrence by the Department of Expenditure are forwarded to the Budget Division for inclusion in the Budget to be laid before Parliament. The Defence and the P. & T. Budgets are received in the Budget Division in a compiled form from the administrative Ministry concerned with the assistance of the concerned Expenditure Division, while in the case of all other Ministries and Departments of the Central Government (other than the Railways) the compilation is done with the assistance of the Accountants-General in the Budget Division, which also consolidates the final Budget.

32. The Committee were informed that the difference in the method of compilation of the Defence and the P. & T. Budgets on the one hand and the rest of the Civil Budget on the other, was mainly due to historical reasons. The Defence Division had at its disposal an organised Defence Accounts Department which was in close touch with the Ministry of Defence and the rest of the Defence Organization. The position in respect of the P. & T. was also stated to be similar. *The Committee, however, consider that in view of the provision of Internal and External Financial Advisers for all the Ministries it should be possible to decentralise the work relating to the compilation of the Budgets of the various Ministries, especially since such compilation after financial scrutiny has been exercised would be mostly clerical in nature and might not need a separate organization in another Department to do it. The final consolidation after exercising scrutiny and test check could with advantage be done by a small Budget Division* located within the Department of Expenditure under unified control so as to facilitate maximum co-ordination in budget scrutiny, compilation and consolidation.*

33. The Budget Division is under the overall charge of a Special Secretary and consists of 1 Joint Secretary, 1 Additional Budget Officer, 3 Under Secretaries, 5 Section Officers, 17 Assistants/UD Cs. and 10

*The Budget Division is in charge of matters connected with the floating of public loans, administration of the Public Debt., borrowings by State Governments, implementation of the recommendations of the Finance Commission etc. These and other similar functions may, however, continue to remain in the Department of Economic Affairs.

LDCs. *The Committee feel that with the decentralization of Budget compilation and the close scrutiny of expenditure proposals by the Expenditure Divisions suggested above, there should be scope for considerable economy in the strength of the Budget Division.*

III ECONOMY DIVISION

A. Functions

34. The Economy Division of the Department of Expenditure, also known as the Special Reorganization Unit, was set up first in 1952 to carry out an objective and critical examination of the organization and staff requirements of the various Ministries and their attached and subordinate offices by undertaking detailed examination and by evolving suitable standards of work with a view to suggesting economies consistent with efficiency.

35. Later in 1954 the Government of India found it necessary to set up in addition an O. & M. Division in the Cabinet Secretariat with the object of improving the quality and methods of work, and speed in disposals and thereby securing maximum efficiency in administration.

36. The Committee were informed that initially the S.R.U. consisted of a special team of officers drawn from the Ministry of Home Affairs and the Ministry of Finance but the unit was not successful since it could not carry with it the conviction of the organisations examined by it with the result that it took a long time to pursue the recommendations and implement them. A review of the organization and method of working of the Unit was, therefore, carried out in 1956. As a result, certain changes, one of which was the technique of work-study, were introduced. Further, the representation of the Ministry of Home Affairs on the S.R.U. was terminated. Since August, 1956, the Joint Secretary was also made the Secretary of the Committee on Plan Projects of the Planning Commission. He is also in charge of the Delhi Division in the Civil Expenditure Division.

37. The Special Reorganization Unit was directed at the time of its reorganisation in 1956 to confine its activities to selected areas of administration instead of working on the basis of a programme for covering the whole of the administration. It was intended that one of its functions should be to regulate the expansion of establishment arising from progressively increasing Plan outlays.

38. The Committee were informed that overstaffing in Government Offices arose because staff requirements were often estimated and sanctioned on the basis of a conjecture in the absence of an analysis of the methods of work. In fact, the Secretary, Department of Expenditure, during his evidence stated that the results of the examination already conducted by the S.R.U. showed that there was still room for economy in the staff position of various Ministries.

39. The number of work-studies etc. carried out by the S.R.U. since re-organisation in 1956 in respect of the various Ministries and Department is in the neighbourhood of 25. During evidence, the Secretary, Department of Expenditure, admitted that he was not satisfied with

the pace of work of the Unit* and that he was working on a scheme by which the Unit could complete an examination of the main Secretariat Departments and possibly some of the major Heads of Departments within a period of two years.

B. O. and M. Unit

40. When an O. & M. Unit was first set up in the Ministry of Finance (Expenditure Division) all the Deputy Secretaries in Expenditure and Establishment Divisions were nominated as O. & M. Officers. A small section consisting of one Section Officer, one Assistant and two clerks was set up in November, 1955 for assisting the O. & M. Officer in respect of the Establishment Division. Towards the end of December, 1956, a separate officer was appointed as the O. & M. Officer for all the Civil Expenditure Divisions with a view to achieving better co-ordination and more effective scrutiny and progress of work, both qualitatively and quantitatively. This, however, was only for a short period after which the officer was allotted other work also. A separate section consisting of one Section Officer, 2 Assistants/U.D. Clerks and two Lower Division Clerks was set up to assist the O. & M. Officer and with effect from 1st February, 1958, it was amalgamated with the existing section.

41. The Committee were informed that no formal review of the work done by the O. & M. Unit had been undertaken so far. It was stated that in view of the small size of the Unit and considering the big and essential work prescribed by the O. & M. Division of the Cabinet Secretariat and that too part-time, a review of the O. & M. work of the Ministry of Finance except as part of a review of the O. & M. work in the Government as a whole might not be worthwhile. The Committee were also informed that the Ministry of Finance had no opportunity to examine either initially or later, the financial justification of the O. & M. Division and the O. & M. Units in the various Ministries.

42. In this connection, the Secretary of an administrative Ministry expressed a view before the Committee that the O. & M. Organization had started with great expectations but that these had not been fulfilled. He said that the O. & M. Unit had been producing a lot of material for the direction of the Ministries but that it was completely disproportionate to the results achieved. There were various kinds of forms to be filled in and reports to be submitted to the O. & M. Section which involved avoidable work. Besides, the O. & M. Officers were crowded with so much day-to-day work that they did not have the time to analyse the information that was collected.

43. *It is obvious from a reading of the foregoing paragraphs that neither the S.R.U. nor the O. & M. Division and Units have fulfilled even a part of the expectations with which they were started. After many years of working both had to be re-organised, and even then it cannot be said that they have performed functions commensurate with the expenditure incurred on them. Rather, the Committee regret to note,*

*At the stage of factual verification it was pointed out that the Secretary, Department of Expenditure was satisfied that with their existing staff the S.R.U. could not have done more than they were doing.

considerable time and money have been spent on futile work and, as the impression goes, the O. & M. Units have perhaps considerably added to the useless procedures, and overburdened the already slow system of Secretariat working. The Committee consider that the time has come for a thorough review of the functions and the organization of both the S.R.U. and the O. & M. Division and the O. & M. Cells in the various Ministries. The Secretary, Department of Expenditure, during his evidence agreed with the need for such a review so as to assess whether the O. & M. Organization was yielding good returns for the money spent. He informed the Committee later that the present incumbent of the post of Director, O. & M. Division, who had recently been appointed, would review the present working of the Organization and offer his suggestions for improving it. The Committee feel that it would be desirable to associate with the Director during his review of the O. & M. working, one or two Senior Secretaries to Government who had experience of the O. & M. work in their Ministries.

C. Co-ordination with O. & M. Division

44. The Committee observe that the work of the S.R.U. is but an extension of the work of the O. & M. Organisation especially in view of the close connection between economy and efficiency. The Committee do not, therefore, consider that there is adequate justification for maintaining the two organizations as distinct units under two different Departments. Since the Cabinet Secretariat has no executive functions to perform, the Committee recommend that the S.R.U. and the O. & M. Organisation—i.e. the O. & M. Division and the various O. & M. Units—be combined into a single organization with a unified control under the Ministry of Finance as to enable the combined organisations to effect speedily economy consistent with efficiency.

45. The staff at present employed in the S.R.U. and the O. & M. Organisation and units is as under:—

	S.R.U.	O. & M. Division	O. & M. Units in Ministries	
			Part-time	Full-time
	part-time	part-time		
J.S.	1	1	..	..
D.S.	2	..	17	..
U.S.	2	..	18	1
O.S.D. . . . .	..	1	..	..
Assistant to Director . . . .	..	1	..	..
Assistant Director . . . .	..	1	..	..
Section Officers	1	4	15	16
Assistants/U.D.Cs. . . .	10	7	14	53
Stenographers/Steno-typists . .	..	2	3	1
L.D.Cs.	7	10	17	50
Draftsmen . . . . .	..	1	..	4
Tracer . . . . .	..	..	..	1
Artists . . . . .	..	..	..	2
Gestetner Operator . . . .	..	1	..	..
Daftries . . . . .	..	2	2	6
Peons . . . . .	..	9	6	11

46. *The Committee feel that the first task of the Ministry of Finance should be to prune this staff effectively so as to reduce it to the barest minimum and to evolve a compact single organisation which should be a model of efficiency based on considerations of maximum of economy. It is only then that such an organisation would be in a position to inspire confidence and influence decisions. The Committee also recommend that the work-studies carried out by it should be published in the annual reports of the Ministries and the economies effected as a result thereof indicated clearly in such reports. This organization should endeavour to lay down scales of work for each job on scientific and business principles and the staff strengths should be based in the light of such conclusions and not on ad hoc or haphazard or conjectural basis.*

47. *The Committee emphasize that the strength and quality of the personnel employed in the Division, their methods and procedures of work and their achievements should be reviewed from time to time so that the instrument for devising and effecting economy in administrative expenditure does not itself become a source of additional expense to Government, as has been the case in the past*

IV

ESTABLISHMENT DIVISION

A. Functions

48. The Establishment Division of the Department of Expenditure is responsible for the administration of Financial Rules and Regulations, delegation of financial powers to Ministries, Departments etc., financial scrutiny of proposals relating to conditions of service, e.g., pay, pension, leave, deputation, etc. of Government servants.

49. The Financial Rules which are dealt with in the Establishment Division are mainly the Fundamental and Supplementary Rules, Civil Service Rules and Regulations, General Financial Rules, Financial Business, General Provident Fund Rules, Superior Civil Service Rules, etc. However, certain other financial rules like the Treasury Rules, the Rules relating to accounting procedure and instructions with regard to control over expenditure, etc., are dealt with in the Budget Division of the Department of Economic Affairs. Again, the various Rules relating to the Conditions of Service of the various All India & Central Services are dealt with in the concerned Ministries of the Government. Thus the Indian Administrative Service and the Indian Police Service Rules are dealt with in the Ministry of Home Affairs, the Rules relating to the Conditions of Service of the Defence Services are dealt with in the Defence Ministry and the Indian Foreign Service Rules are dealt with in the Ministry of External Affairs.

B. Simplification of Rules

50. In November 1949, in his report on the reorganisation of the machinery of Government, the late Shri N. Gopalaswamy Ayyangar had suggested that Rules and Regulations governing the recruitment, training, posting, regulation of conduct and discipline, leave, pay, pension and other service conditions of Government servants should be consolidated in a self-contained Code of Civil Service Regulations. Accordingly, an Inter-Departmental Committee was set up in February 1951 to recodify the various Service Rules and Regulations, but it was stated in the Fourth Annual Report of the O & M Division of 1957-58 that the work of that Committee went on a little slowly and somewhat spasmodically with the result that by 1956 that Committee had sent round only preliminary drafts of the revised Pay Code, Leave Code, etc. Subsequently, a High Level Committee was set up in 1957 to take up the review with the utmost speed. This Committee, it was stated by the Secretary of the Ministry of Finance during his evidence, had done good work but that its work had been kept in abeyance pending the report of the Second Pay Commission which is expected to be submitted sometime in 1959.

51. The Committee note that the Financial Rules of Government which were framed long ago are out of tune with the present pattern and purpose of administration and the scale of governmental operations. There is also a widespread feeling that these Rules, possibly as a result of frequent piecemeal changes, have become very complicated and need simplification. The Secretary of the Ministry of Finance also agreed during his evidence that the Rules required a great deal of simplification.

52. The Committee pointed out that, under the present procedure, sanction and payment of pensions to retired Government servants was often very much delayed causing much distress to the persons concerned. The Committee were informed that the question had been examined by Government sometime back and instructions had been issued to simplify the procedure for sanctioning pension. It had, however, been found that the defects which gave rise to the delays in payment of pensions lay not only in the procedure but in the basic rules themselves. The Government had, therefore, set up a special Committee consisting of the Cabinet Secretary, the Secretary of the Department of Expenditure, and a representative of the Comptroller & Auditor-General to examine the matter comprehensively.

53. The Committee deplore the halting attempts so far made to review and simplify the Rules and Regulations and the little progress made in the matter during the last ten years. The need for an early review, simplification and recodification of all financial rules and those relating to service conditions so as to suit the changed circumstances and the existing service conditions needs no emphasis. The Committee, therefore, hope that even now speedy action would be taken to complete the work.

54. The Committee understand that a large volume of Case Law has grown around various Rules and that at present there is no authoritative compilation of all the amendments and clarificatory orders issued under these Rules. *As the responsibility with regard to the formulation and interpretation of these Rules rests with the Establishment Division, the Committee suggest that that Division should undertake the publication of such compilations periodically.*

C. Delegation of financial powers

55. The Committee were informed by the Secretary, Department of Expenditure, that even though the scheme introduced in 1958 under which large financial powers had been delegated to the Ministries contemplated sub-delegation or re-delegation of powers by the administrative Ministries to subordinate authorities very few proposals in this regard had been received in the Finance Ministry. *The Committee regret that the administrative Ministries should have taken such a long time to make the necessary proposals and thereby caused unnecessary*

delay and avoidable expenditure in the execution of development programmes. The Committee, however, hope that the administrative Ministries will not display any tendency to retain the financial powers with them and starve the subordinate authorities of their necessary share. The Committee consider that urgent action is called for so that effective decentralization of financial and administrative powers takes place as early as possible. The Ministry of Finance should ensure that administrative Ministries do move in the matter as early as possible and effective action should be taken by them to achieve this.

56. At the same time, to prevent any abuse of power, either deliberate or through bone fide mistake, the Committee recommend that it should be the responsibility of the Finance Ministry to review the exercise of delegations to administrative Ministries. Similarly, it should be the responsibility of every administrative Ministry and its Internal Financial Adviser to review from time to time the exercise of delegations made to its subordinate authorities. Such reviews should also be directed to ensure that powers given to various authorities are in effect exercised and not shirked.

D. Conditions of Service Rules

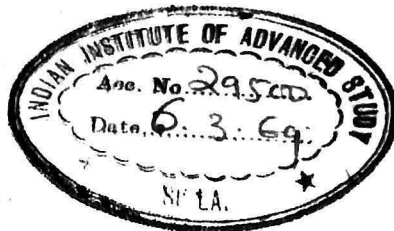
57. The Establishment Division is called upon to deal with references seeking relaxation of rules in individual cases. The Committee feel that the practice of relaxing the rules in favour of individuals is open to abuse and likely to cause dissatisfaction and that it should be allowed only in rare and exceptional cases. While they hope that the delegations suggested earlier would minimise such cases, they recommend that a record of all such cases referred to the Establishment Division for relaxation of Rules and the cases in which relaxations were allowed with justification therefor may be maintained in the Department and reviewed from time to time so as to ensure that the relaxations are kept to the minimum.

58. The Committee also understand that disposal of references regarding leave, pensions, gratuity, etc. made to the Establishment Division is considerably delayed with the result that discontent is caused among the staff and unnecessary work is involved in the Ministries in re-opening past cases as a result of late issue of orders. In this connection, the statement in the Fourth Annual Report of the O. & M. Division that during the seven months of the year 1957-58 the disposal of cases in the Establishment Division in a month invariably fell short by over 25% of the receipts in that month is significant.

59. Such delays should give rise to concern to the senior officers of the Ministry of Finance. The Committee recommend that a record of all clarifications, amendments, retrospective sanctions and time taken in disposal of references in the Establishment Division should be maintained and reviewed periodically by the senior officers with a view to determining the reasons and taking suitable remedial steps including disciplinary action against persons responsible.

E. Organization

60. The Establishment Division consists of one Joint Secretary, five Deputy Secretaries, ten Under Secretaries, 19 Section Officers, 97 Assistants/UDCs. and 85 LDCs. The Committee wonder whether the work in the Establishment Division justifies such a large establishment. They consider that cases which are sent to the Establishment Division for advice, etc., are such that should ordinarily be disposed of at the officer level. *The Committee feel that the presence of a large number of subordinate staff in the Establishment Division indicates that the usual routine of noting by clerks, Assistant Section Officers, Under Secretaries/Deputy Secretaries goes on and that it would be interesting to know with reference to files as to the number of notes which are written by different categories of staff on the same matter in the Establishment Division. The Committee, therefore, recommend that the organization, the working and the procedures of work in the Establishment Division should be comprehensively examined with a view to reducing its strength drastically.*



V

COST ACCOUNTS BRANCH

A. Functions

61. The Cost Accounts Branch of the Department of Expenditure was set up during the Second World War for the purpose of investigation of costs relating to 'Cost Plus' contracts, for making payments thereunder and also for fixing prices of supplies required for War purposes so as to ensure that abnormal prices were not paid to the suppliers. After the termination of the War, the nature of work of the organization underwent a change. At present the organization deals with *ad hoc* items of work relating to investigation of accounting systems and costs entrusted to it by various Ministries/Departments from time to time. The Committee were informed that the Cost Accounts Branch had been of great use in effecting economies and in increasing the efficiency of the administration where it was called upon to investigate and advise.

62. The Cost Accounts Branch consists at present of 1 Chief Cost Accounts Officer, 3 Senior Cost Accounts Officers, 11 Cost Accounts Officers, 7 Assistant Cost Accounts Officers and 16 Accountants.

63. The Committee in paragraph 121 of their Thirty-ninth Report (Frist Lok Sabha) had recommended that the Cost Accounts Branch should be entrusted with the specific duties of laying down the cost accounting system to be followed by each undertaking in the public sector, of conducting systematic, concurrent or periodic reviews in regard to the adequacy or otherwise of the system followed by them and of submitting reports thereon to the Ministry of Finance as well as to the administrative Ministries concerned. The Committee were informed that the responsibility for the maintenance of an efficient system of cost accounting devolved primarily on the Boards of Directors of the public undertakings and that the Cost Accounts Branch was not at present equipped with fully trained personnel conversant with the system suitable to all types of undertakings. Consequently, the Ministry of Finance did not consider it feasible immediately to centralise in the Cost Accounts Branch of the Finance Ministry the responsibility of laying down systems of costing for all State undertakings and of ensuring by periodical inspections that the systems were being faithfully followed. The Committee were, however, informed that while proposing to develop the Cost Accounts Branch it was also proposed that the Branch would examine the existing systems of cost accounting in the various public undertakings in consultation with their Boards of Directors and submit reports for consideration of Boards of Directors and administrative Ministries concerned.

64. In this connection, the Committee observe that the extent of work done by the Cost Accounts Branch so far has been as follows:—

Type of work	As on 1-6-58	Rough estimates for 1958-59	For the last three years		
			1955-56	1956-57	1957-58
Cost investigations	14	70	36	34	58
Investigations in Escalator claims	149	200	25	203	126
Study of accounting systems	8	6	7	2	3
Devised investigations for rendering assistance to Committees	10	20	9	14	3
Valuation of industrial undertakings	—	2	1	7	2
	176	298	78	265	192

It is seen that the number of investigations of accounting systems conducted by the Branch has been of the order of only 2 or 3 annually, which seems an insignificant figure considering the number of public undertakings in the country. The need for an efficient and effective system of cost accounting in the various undertakings in the public sector needs no emphasis. The Committee recommend that the Ministry of Finance might draw up a programme so as to complete one round of examination of cost accounting systems of the various public undertakings in as short a period as possible.

65. *A suggestion has been made to the Committee that the officers of the Cost Accounts Branch could make a comparative study and compile data in respect of the various Government undertakings with regard to capital investment per unit capacity, labour force per unit capacity, labour cost per unit production, standard quantities of raw materials consumption, relationship between capital cost and maintenance cost of plants and equipment etc. The Committee have no doubt that such data would be useful for judging the efficiency of any industrial unit and recommend that its compilation be undertaken in the Cost Accounts Branch gradually.*

66. *The Committee have suggested in paragraph 27 that information relating to contracts and agreements be pooled. The services of the Cost Accounts Branch would be invaluable both in analysing past agreements etc. and at the time of negotiating agreements in future and recommend that these be included in the functions of the Cost Accounts Branch.*

B. Organization

67. *The Committee feel that the Cost Accounts Branch would need to be reorganized after the duties suggested above are allotted*

to that Branch. In this connection, it has been suggested to the Committee that the Cost Accounts Branch should be reorganized as follows:

"It should be divided into the following divisions:

- (1) A Systems Division which will be responsible to lay down the systems of accounting to be adopted in the various State industrial units. This Division will ensure that uniform system of accounting is followed by the several units relating to the same type of industry.
- (2) A Systems Inspection Division which will consist of a set of experienced touring officers who will go about making periodical visits to the industrial units concerned and examine the actual working of the systems laid down with a view to ensure that the prescribed systems are being properly worked. This Division can also undertake what may be called an 'efficiency audit' simultaneously and make its confidential report to the administrative or financial authorities of the Government.
- (3) A Research Division which will collect industrial data and publish them periodically for the information of all concerned. This Research Division should also be held responsible for publishing pamphlets on standardised accounting procedure including cost accounting procedure for the several industries in the country. They should be sufficiently informative and should give reasonably good description of the technical processes involved, and also indicate the peculiar aspects of accounting to be looked into and the various important items of quantitative and production data that would be useful to be provided to the management for control purposes.
- (4) The Cost Investigation Division which will carry on the other routine work which is being done at present by this Branch."

The Committee recommend that these suggestions may be examined by the Ministry of Finance quickly.

68. The Committee were given to understand that the major difficulty in widening the scope of the Cost Accounts Branch and of expanding it was the dearth of men holding requisite qualifications and experience. Even at present the posts of 4 Cost Accounts Officers, 3 Assistant Cost Accounts Officers and 9 Accountants in the Cost

Accounts Branch were vacant. The Committee observe, however, that in addition to the existing cadre of Accountants the Branch has only 10 Accountants under training at present. They were informed that Government had also decided to send abroad 2 officers for training in cost accounting relating to Steel Projects. The Hindustan Steel Ltd. had also started a school at Calcutta where 100 accountants were under training. *The Committee consider these steps as inadequate. The need for developing the Cost Accounts Branch in the Ministry of Finance and the cost accounts organizations in the different public undertakings cannot be over-emphasized. They, therefore, recommend that energetic steps be taken by Government to increase the output of cost accountants in the country by:*

- (i) *starting more training schools like the one at present run by the Hindustan Steel Ltd.*
- (ii) *utilising all the available well qualified personnel in the country to train students and accountants;*
- (iii) *bringing foreign experts under the various aid schemes for providing coaching;*
- (iv) *deputing abroad in larger number selected candidates, and*
- (v) *providing extensive practical training in Cost Accountancy to those trained under the above schemes.*

69. *The Committee also recommend that pending the availability of such trained personnel of their own, Government might utilise to the extent possible such cost accounting and consultancy organizations as are already available in the country for the duties to be allotted to the enlarged Cost Accounts Branch.*

VI STAFFING

70. The Committee were informed that the Ministry of Finance was manned from three sources, viz., the Central Secretariat Service, the Finance and Commerce Ministries' pool cadre and the I.A.S. and other Central Services. With the setting up of the Internal Finance Wings in the various administrative Ministries the initial postings of the officers and staff were arranged by the Ministry of Finance from out of its existing strength. The Secretary, Department of Expenditure, stated, however, that the future manning of the Internal Finance Wings had become a problem and no decision in regard to it had yet been arrived at.

71. In regard to Corporations and Government companies the Committee were informed that the Chief Finance Officers of the undertakings were being appointed by Government in consultation with the Ministry of Finance. The sources of recruitment of such officers were also limited to those who had acquired experience in administration or the traditional system of financial administration. The junior officers in the public undertakings were, however, recruited by the respective undertakings themselves. No arrangements had yet been made with regard to future postings in the public undertakings under the revised system of financial control.

72. In this connection, a former Secretary of the Ministry of Finance who gave evidence before the Committee expressed the view that because of increasing expenditure on Government companies and corporations as well as on irrigation and power projects, the need for Finance Officers in various Ministries with experience of such projects would be great. He, therefore, suggested that a pool of men experienced in financial procedure and administration as well as men trained in the various public undertakings including irrigation and power projects might be created from which the Central Establishment Board of the Government of India might make appointments of financial advisers to the various Ministries. As at present there was no uniformity with regard to the recruitment of junior officers in the various undertakings, he suggested that the recruitment to these posts might be made in future centrally.

73. *The Committee consider that it would be desirable to form a single cadre of the posts in the Department of Expenditure and the Budget Division of the Ministry of Finance, the Internal Finance Wings of the various Ministries and the Finance Branches of the various public undertakings so that persons with experience of various*

undertakings might be available for posting in the Finance Wings of the various administrative Ministries and the latter for posting in the Finance Ministry. Such an arrangement would facilitate uniform practices and procedures in regard to financial scrutiny being developed in all Ministries and undertakings. The Committee suggest that an assessment may be made of the immediate and future requirements of personnel for such a cadre and thereafter, a plan drawn up for recruitment from existing as well as new personnel and for their training. They would suggest that officers taken into such a pool be given practical experience of the various projects, companies and corporations with the problems of which they might be called upon to deal in the Finance Wings of the Administrative Ministries and in the Finance Ministry. The Committee also consider that in order that the Finance Officers in the Secretariat might always remain alive to the practical problems, it would be desirable to have regular interchange of officers and staff among the Ministry of Finance, the Finance Wings of the administrative Ministries and the Finance Branches of the various undertakings and projects.

NEW DELHI;
The 28th April, 1959.
8th Vaisakha, 1881.

BALVANTRAY G. MEHTA,
Chairman.
Estimates Committee.

APPENDIX I

Statement showing the Summary of Conclusions/Recommendations of the Estimates Committee contained in the Report

Sl. No.	Para. No.	Summary of Conclusions/Recommendations
1	2	3
1	8—9	It is evident that after a policy or a scheme is included in the Plan, the scope for examining the propriety or necessity of that policy or scheme would be limited. The Committee consider it highly unsatisfactory that the Ministry of Finance should undertake the financial scrutiny of a scheme after its inclusion in the Plan. Elementary commonsense indicates that financial aspects of a scheme or project should be thoroughly examined prior to its consideration by the Planning Commission so that all aspects, among which financial aspect is no doubt important, are before the Commission and the approved plan is realistic. The Committee have no doubt that this neglect on the part of the Finance Ministry has led to certain grievous errors in the past, e.g. the Steel Projects and the Dandakaranya Scheme were included in the Plan and later in the Budget without adequate financial scrutiny. The Committee recommend that every paper prepared at the planning stage by an administrative Ministry for approval either by the Minister concerned or the Planning Commission or the Cabinet should be accompanied by a note by the Internal Financial Adviser of the Ministry in regard to the financial implications of the policy or the scheme in question. The financial implications together with broad details of the schemes under examination should be made available to the Finance Ministry to enable the Minister of Finance, as a Member of the Planning Commission and the Cabinet, to explain the full financial implications of a policy or scheme to the Commission or the Cabinet before approval is given by them.
2	11	The Committee consider that notwithstanding the responsibility of the Budget Division the administrative Ministries have an important responsibility in the control of Standing Charges and, for that purpose, they should conduct properly directed periodical reviews. The Ministry of Finance should call for these periodical reviews and have them thoroughly

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examined by its Economy Division with a view to exploring scope for economy well in advance of the approval of the Estimates. The Committee also recommend that the results of such reviews should be embodied in the annual reports of the Ministry and their monetary values indicated clearly and correlated with the Estimates in question.

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The Committee recommend that in accordance with the procedure laid down, continuing schemes should be periodically and systematically reviewed by the administrative Ministries and their Internal Financial Advisers with the assistance of technical and other experts and that such reviews should be called for and taken into account by the Ministry of Finance during the pre-Budget scrutiny of such schemes. Cases of non-compliance with this procedure by any administrative Ministry should be reported by the Finance Ministry to the Cabinet for such action as they consider necessary.

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In regard to new schemes, the Committee fail to see what good it does either to the administrative Ministry or the Finance Ministry to bypass the prescribed procedure and to dispense with pre-Budget scrutiny. They regard it unsatisfactory that the Finance Ministry should allow itself to be hustled into accepting raw and ill-conceived schemes for inclusion in the Budget. Such a procedure obviously results in presenting rough estimates to Parliament which may eventually prove to be wrong estimates, laxity of control over the financial aspects of the schemes and eventual delay in the execution of the schemes. The Committee are of the view that the Finance Ministry has a duty and a responsibility to ensure that no scheme which has not been scrutinised is included in the Budget. In case such schemes mature during the course of a year and are required to be taken up urgently, Supplementary Demands could always be presented.

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In regard to grants-in-aid given to quasi-Government and private agencies, the Committee feel that the checks exercised at the pre-Budget stage are more with reference to the policy and the size of the grants rather than with reference to the actual use to which the grants have been put by the grantees and the benefits derived therefrom. In the circumstances, the Committee doubt whether there is any financial control, both Executive and Parliamentary, over

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the expenditure incurred by way of grants-in-aid out of public revenues. They recommend that the concerned administrative Ministry and its Internal Financial Adviser should obtain annually a performance or achievement report from the grantee in respect of each grant and with the assistance of some leading non-officials interested in the object of the particular grant, review annually its utilisation so as to regulate the payment of the grants in-aid in future. They also recommend that a review on the utilisation of the grants-in-aid specifying in detail the achievements *vis-a-vis* the amounts spent should be included in the annual report of the Ministry concerned.

- 6 18—19 The extent of scrutiny exercised in respect of contributions to international bodies is even less since they are treated as obligatory payments on account of international agreements. The Committee recommend that in regard to such payments also the administrative Ministry concerned should attempt a periodical review of the benefits flowing therefrom in its annual report. In this connection, the Committee also invite attention to the fact that in U.K. all grants-in-aid and contributions to international bodies are broadly indicated in Part I of the Estimates of a Ministry and as such reproduced in the Appropriation Act which is enacted by Parliament. Such a procedure serves to pinpoint the extent of grants given to non-governmental bodies most of which are outside the purview of the Comptroller & Auditor-General. The Committee recommend that such a procedure be adopted in India also.
- 7 21 Now that the country has launched a gigantic economic development of the country and the whole context of budgeting has changed, the Committee recommend that the present classification of estimates of expenditure in Budget Papers should be changed as indicated in para 21.
- 8 23 The Committee feel that since the scheme of internal financial advice was put into effect only six months ago, it is yet too early to come to any final judgment. They would however, like that before an opinion is formed, a list of the lapses on the part of internal financial advisers is prepared to assess the true worth of that advice *vis-a-vis* the advice given by the Ministry of Finance in similar circumstances. The Committee also recommend that wherever estimates go wrong, reappropriations take place, demands for

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additional funds as a result of increase in costs of schemes are made, Supplementary Demands are asked and lapses of funds take place, a regular post-mortem should be held to determine the reasons which led to the wrong estimates and to fix responsibility therefor. The lessons learnt from such an examination if pooled and circulated to all Ministries would undoubtedly improve preparation and scrutiny of estimates in future.

9 24 The Committee understand that the Department of Expenditure had actually in a limited time to scrutinise a large number of schemes. For this purpose, 4 posts of Deputy Secretaries had been created in the Department of Expenditure for three months to cope with the rush for scrutiny of schemes. This instance indicates how regular staff can remain without full quantum of work for major part of the year and how extra staff has to be employed because of lack of method and co-operation between the various Ministries of Government apart from the fact that financial scrutiny conducted by the temporary officers in a limited time at their disposal must be of inferior type.

10 27 The Committee reiterate the suggestion made by them in their Report on the Ministry of Steel, Mines and Fuel—Hindustan Steel Limited (Thirty-Third Report—Second Lok Sabha) that all negotiations for large agreements and contracts should be conducted by a Committee of technical as well as financial experts rather than by individuals. They suggest in this connection that the financial aspects of all big contracts and agreements should before their finalisation be got examined by a team of financial experts instead of by a single Financial Adviser who is generally associated with the negotiations. The Committee suggest that a record should be maintained of the negotiations as well as examinations so conducted so that the attempts that were made by the negotiators for securing better terms would be available on record.

11 28 The Committee further recommend that a history card of each major contract and agreement entered into so far and in future by or on behalf of the Government be prepared indicating therein the various steps through which the negotiations passed, the difficulties which were encountered, how they were overcome and other particulars. Such a record and

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its analysis would provide safeguards against recurrence of the same defects while entering into contracts and agreements in future.

- 12 29 The Committee recognize that it is difficult to lay down any uniform standards of financial scrutiny, particularly when the machinery of Government is so complex and their activities so varied and vast. Nevertheless they feel that a system of training of all financial advisers in the methods and application of financial scrutiny should be devised. The Committee also recommend that there should be a common cadre of financial advisers who man the posts in the Ministry of Finance, Internal Financial Wings of Ministries and Finance and Accounts Departments of public undertakings. The officers should be liable to transfer *inter se* so that the knowledge and experience gained by them in one post may prove of use to them in similar appointments elsewhere.
- 13 30 The Committee recommend that Secretaries of Administrative Ministries may once a quarter send a list of cases in which delays have taken place or in which objections were raised by officers of the Ministry of Finance piecemeal to the Secretary of the Department of Expenditure in order to enable the latter to investigate into the cases in a concrete manner and to take suitable action against those who are responsible for them.
- 14 32 The Committee consider that in view of the provision of Internal and External Financial Advisers for all the Ministries it should be possible to decentralise the work relating to the compilation of the Budgets of the various Ministries, especially since such compilation after financial scrutiny has been exercised would be mostly clerical in nature and might not need a separate organization in another Department to do it. The final consolidation after exercising scrutiny and test check could with advantage be done by a small Budget Division located within the Department of Expenditure under unified control so as to facilitate maximum co-ordination in budget scrutiny, compilation and consolidation.

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15	33	The Committee feel that with the decentralization of budget compilation and the close scrutiny of expenditure proposals by the Expenditure Division, suggested earlier, there should be scope for considerable economy in the strength of the Budget Division.
16	43	It is obvious from a reading of paras 36--42 that neither the S.R.U. nor the O. & M. Division and Units have fulfilled even a part of the expectations with which they were started. After many years of working both had to be re-organised, and even then it cannot be said that they have performed functions commensurate with the expenditure incurred on them. Rather, the Committee regret to note, considerable time and money have been spent on futile work and, as the impression goes, the O. & M. Units have perhaps considerably added to the useless procedures, and overburdened the already slow system of Secretariat working. The Committee consider that the time has come for a thorough review of the functions and the organization of both the S.R.U. and the O. & M. Division and the O. & M. Cells in the various Ministries. The Secretary, Department of Expenditure, informed the Committee that the present Director, O. & M. Division would review the present working of the Organization and offer his suggestions for improving it. The Committee feel that it would be desirable to associate with the Director, during his review of the O. & M. working, one or two Senior Secretaries to Government who had experience of the O. & M. work in their Ministries.
17	44	The Committee do not consider that there is adequate justification for maintaining the S.R.U. and the O. & M. Organisation as distinct units under two different Departments. Since the Cabinet Secretariat has no executive functions to perform, the Committee recommend that the S.R.U. and the O. & M. Organisation, <i>i.e.</i> , the O. & M. Division and the various O. & M. Units, be combined into a single Organisation, with a unified control under the Ministry of Finance so as to enable the combined organizations to effect speedily economy consistent with efficiency.

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- 18 46 The Committee feel that the first task of the Ministry of Finance should be to prune effectively the staff at present employed in the S.R.U. and the O. & M. Organisation and units (given in para 45) so as to reduce it to the barest minimum and to evolve a compact single organisation which should be a model of efficiency based on considerations of maximum of economy. It is only then that such an organisation would be in a position to inspire confidence and influence decisions. The Committee also recommend that the work-studies carried out by it should be published in the annual reports of the Ministries and the economies effected as a result thereof indicated clearly in such reports. This organization should endeavour to lay down scales of work for each job on scientific and business principles and the staff strengths should be based in the light of such conclusions and not on *ad hoc* or haphazard or conjectural basis.
- 19 47 The Committee emphasize that the strength and quality of the personnel employed in the Economy Division, their methods and procedures of work and their achievements should be reviewed from time to time so that the instrument for devising and effecting economy in administrative expenditure does not itself become a source of additional expenses to Government, as has been the case in the past.
- 20 53 The Committee deplore the halting attempts so far made to review and simplify the Rules and Regulations and the little progress made in the matter during the last ten years. The need for an early review, simplification and recodification of all financial rules and those relating to service conditions so as to suit the changed circumstances and the existing service conditions needs no emphasis. The Committee, therefore, hope that even now speedy action would be taken to complete the work.
- 21 54 As the responsibility with regard to the formulation and interpretation of various Rules rests with the Establishment Division, the Committee suggest that that Division should undertake the publication of such compilations periodically.
- 22 55 In regard to sub-delegation or re-delegation of financial powers by the administrative Ministries to subordinate authorities, the Committee regret that the administrative Ministries should have taken a long time to make
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the necessary proposals and thereby caused unnecessary delay and avoidable expenditure in the execution of development programmes. They, however, hope that the administrative Ministries will not display any tendency to retain the financial powers with them and starve the subordinate authorities of their necessary share. The Committee consider that urgent action is called for so that effective decentralization of financial and administrative powers takes place as early as possible. The Ministry of Finance should ensure that administrative Ministries do move in the matter as early as possible and effective action should be taken by them to achieve this.

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At the same time, to prevent any abuse of power, either deliberate or through *bona fide* mistake, the Committee recommend that it should be the responsibility of the Finance Ministry to review the exercise of delegations to administrative Ministries. Similarly, it should be the responsibility of every administrative Ministry and its Internal Financial Adviser to review from time to time the exercise of delegations made to its subordinate authorities. Such reviews should also be directed to ensure that powers given to various authorities are in effect exercised and not shirked.

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The Committee feel that the practice of relaxing the rules in favour of individuals is open to abuse and likely to cause dissatisfaction and that it should be allowed only in rare and exceptional cases. While they hope that the delegations suggested earlier would minimise such cases, they recommend that a record of all such cases referred to the Establishment Division for relaxation of Rules and the cases in which relaxations were allowed with justification therefor may be maintained in the Department and reviewed from time to time so as to ensure that the relaxations are kept to the minimum.

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The statement in the Fourth Annual Report of the O. & M. Division that during the seven months of the year 1957-58 the disposal of cases in the Establishment Division in a month invariably fell short by over 25% of the receipts in that month is significant. Such delays should give rise to concern to the senior officers of the Ministry of Finance. The Committee

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recommend that a record of all clarifications, amendments, retrospective sanctions and time taken in disposal of references in the Establishment Division should be maintained and reviewed periodically by the senior officers with a view to determining the reasons and taking suitable remedial steps including disciplinary action against persons responsible.

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| 26 | 60 | The Committee feel that the presence of a large number of subordinate staff in the Establishment Division indicates that the usual routine of noting by clerks, Assistants, Section Officers, Under Secretaries/Deputy Secretaries goes on and that it would be interesting to know with reference to files as to the number of notes which are written by different categories of staff on the same matter in the Establishment Division. The Committee recommend that the organization, the working and the procedures of work in the Establishment Division should be comprehensively examined with a view to reducing its strength drastically. |
| 27 | 64 | The number of investigations of accounting systems conducted by the Cost Accounts Branch has been of the order of only 2 or 3 annually, which seems an insignificant figure considering the number of public undertakings in the country. The Committee recommend that the Ministry of Finance might draw up a programme so as to complete one round of examination of cost accounting systems of the various public undertakings in as short a period as possible. |
| 28 | 65 | A suggestion has been made to the Committee that the officers of the Cost Accounts Branch could make a comparative study and compile data in respect of the various Government undertakings with regard to capital investment per unit capacity, labour cost per unit production, standard qualities of raw materials consumption, relationship between capital cost and maintenance cost of plants and equipment etc. The Committee have no doubt that such data would be useful for judging the efficiency of any industrial unit and recommend that its compilation be undertaken in the Cost Accounts Branch gradually. |
| 29 | 66 | The Services of the Cost Accounts Branch would be invaluable both in analysing past contracts and agreements and at the time of negotiating agreements in future and recommend that these be included in the functions of the Cost Accounts Branch. |

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30	67	The Committee feel that the Cost Accounts Branch would need to be reorganised after the duties suggested earlier are allotted to that Branch. They recommend that the suggestions in this regard contained in para 67 may be examined by the Ministry of Finance quickly.
31	68	<p>The Committee consider the steps taken to strengthen the Cost Accounts Branch etc. as inadequate. The need for developing the Cost Accounts Branch in the Ministry of Finance and the cost accounts organisations in the different public undertakings cannot be over emphasized. They recommend that energetic steps be taken by Government to increase the output of cost accountants in the country by :</p> <ul style="list-style-type: none"> (i) starting' more training schools like the one at present run by the Hindustan Steel Ltd. ; (ii) utilising all the available well-qualified personnel in the country to train students and accountants ; (iii) bringing foreign experts under the various aid schemes for providing coaching ; (iv) deputing abroad in larger number selected candidates ; and (v) providing extensive practical training in Cost Accountancy to those trained under the above schemes.
32	69	The Committee also recommend that pending the availability of trained personnel of their own, Government might utilise to the extent possible such cost accounting and consultancy organisations as are already available in the country for the duties to be allotted to the enlarged Cost Accounts Branch.
33	73	The Committee consider that it would be desirable to form a single cadre of the posts in the Department of Expenditure and the Budget Division of the Ministry of Finance, the Internal Finance Wings of the various Ministries and the Finance Branches of the various public undertakings so that persons with experience of various undertakings might be available for posting in the Finance Wings of the various administrative Ministries and the latter for posting in the Finance Ministry. Such an arrangement would facilitate uniform practices and procedures in regard to financial scrutiny being developed in all Ministries

and Undertakings. The Committee suggest that an assessment may be made of the immediate and future requirements of personnel for such a cadre and thereafter, a plan drawn up for recruitment, from existing as well as new personnel, and for their training. They would suggest that officers taken into such a pool be given practical experience of the various projects, companies and corporations with the problems of which they might be called upon to deal in the Finance Wings of the Administrative Ministries and in the Finance Ministry. The Committee also consider that in order that the Finance Officers in the Secretariat might always remain alive to the practical problems, it would be desirable to have regular interchange of officers and staff among the Ministry of Finance, the Finance Wings of the administrative Ministries and the Finance Branches of the various undertakings and projects.

APPENDIX II

Analysis of Recommendations contained in the Report

I. Classification of recommendations

A. Recommendations for improving the Organization (Serial Nos. 12, 14, 16, 29, 30, 31, 32 and 33)	8
B. Recommendations for improving the methods and procedure of work (Serial Nos. 1, 2, 3, 4, 5, 6, 7, 8, 10, 11, 13, 20, 21, 22, 23, 24, 25, 27 and 28)	19
C. Recommendations for effecting economy (Serial Nos. 9, 15, 17, 18, 19 and 26)	6
TOTAL	33

II. Important Recommendations directed towards economy

All the recommendations are directed towards improving the system of financial control. An analysis of the recommendations in so far as they concern the Ministry of Finance is given below :

S. No.	Number as per summary of Recommendations	Particulars
1	15	Scope for reduction in the strength of the Budget Division with the suggested decentralisation of Budget compilation.
2	17-18	Amalgamation of the S.R.U. and the O. & M. Organisation and suggestion for reduction in the staff strength of the amalgamated Division.
3	26	Scope for reduction in the staff strength of the Establishment Division.

