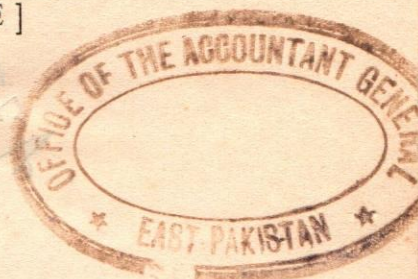


AN INTRODUCTION  
TO  
THE ACCOUNTS AND AUDIT  
OF THE  
GOVERNMENT OF ~~PAKISTAN~~ *Bangladesh*

FIRST EDITION

[ PROVISIONAL ISSUE ]



*Issued under the Authority of the Auditor General of Pakistan*



## **PREFACE TO THE FIRST (PAKISTAN) EDITION**

In this edition, the contents of " An Introduction to Indian Government Accounts and Audit, second edition " have been reproduced with such modifications as are consistent with the present constitutional set-up of Pakistan. The Prefaces in the Indian (Second) Edition have been reproduced in their original form for the information of the readers.

The instruction in the last paragraph of the Preface to the First (India) Edition continues to apply.

YAQUB SHAH,

*Auditor General of Pakistan.*

KARACHI ;

*February, 1952.*



## PREFACE TO THE FIRST REVISED (INDIA) EDITION

The issue of this revised edition of "An Introduction to Indian Government Accounts and Audit" has been rendered necessary by the constitutional changes introduced by the Government of India Act, 1935, and the consequent changes in the sphere of Finance, Accounts and Audit. The revision is contemporaneous with, and is also made necessary by, the issue of new Account and Audit Codes by the Auditor General of India in pursuance of the provision of the Act and the Government of India (Audit and Accounts) Order, 1936.

2. No substantial change in plan has been made in this edition. A slight re-arrangement has been made in Parts III, IV and V in order that the subjects of study may be developed more logically. The contents of three separate chapters in the previous edition have with necessary or suitable modifications been incorporated in the relevant chapters in the present edition, while one of the chapters in the previous edition has been split up into two separate chapters. Two new chapters have been included in the present edition,—one, on the subject of audit of Debt and Remittance transactions, in Part III, and the other, on the financial, accounting and audit arrangements in respect of the transactions of the Crown Representative, as a separate Part at the end.

3. The opportunity has been taken to eliminate all purely historical matter relating to the development of accounts, audit and financial administration, only so much of the development of an idea or system being retained as is necessary for an explanation of the present position.

4. The Preface to the first edition has been reproduced in original and is appended. The instruction in the last paragraph of that Preface continues to apply.

E. BURDON,

*Auditor General in India.*

NEW DELHI ;

*The 9th April 1940.*



## PREFACE TO THE FIRST (INDIA) EDITION

The present Manual combines for the first time, the "Introduction to Indian Government Audit" with the "Introduction to Indian Government Accounts". It is based in the main on the two earlier volumes which bore these titles, the former of which was prepared by Sir Frederic Gauntlett, K.C.I.E., K.B.E., I.C.S. (late Auditor General in India), while the latter was originally drafted by Mr. L. E. Pritchard (late Accountant General), and subsequently revised by Sir Frederic Gauntlett.

Much of the material in the present Manual is taken direct from the second editions of the earlier volumes, with such modifications and omissions as are necessitated by the changes which have taken place since they were published.

At the same time the opportunity has been taken thoroughly to re-arrange the matter in such a way as to facilitate consecutive study of the subject. Moreover, a considerable amount of new matter has been incorporated, the more important portions of which deal with the constitutional position of Audit, and incidentally of Accounts, under the reformed constitution given to India in 1919.

This Manual has been compiled at a time when further changes of far-reaching importance are expected. To postpone its issue until the changes are effected would probably have involved a delay of several years; while there is a certain advantage in making available at the present stage a summary of the position as it now stands in order to make it easier for Probationers,—and it is hoped for others also,—to grasp the significance of the impending changes as they take place.

This "Introduction" carries no authority beyond that of the Statutory Rules, Codes, etc., which it attempts to summarise. It may not, therefore, be quoted as carrying any authority in itself. It must be remembered that a summary of detailed Rules can only give a general conspectus of their effect; and it is incumbent upon readers to study the originals, to which this volume is intended to serve as a guide.

E. BURDON,

*Auditor General in India.*

July 1st, 1930.



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# An Introduction to Pakistan Accounts and Audit of the Government of Pakistan

## PART I

### A PRELIMINARY SURVEY OF ACCOUNTS AND AUDIT SYSTEMS

#### CHAPTER 1

##### The Purpose of Accounts and Audit

1. *Subject matter.*—The object of this book is to give a broad idea of the activities of the "Pakistan Audit Department", the term meaning the officers and establishments, subordinate to the Auditor-General of Pakistan, that are employed upon the audit or upon the keeping and audit of the accounts of the Central Government and of the Provinces. Before discussing the principles of that particular branch of accounts and audit with which this department deals, it is desirable to have a clear conception of the phrase "keeping and audit of the accounts".

2. *Accounts and Transactions.*—The word "accounts", in the financial sense, has been defined as statements of facts relating to money, or things having money value. The facts that are incorporated in accounting records are described as "transactions".

✓ 3. *Accounting.*—A mere chronological register of pecuniary transactions (commonly called a Cash Account) is soon found to be insufficient. From such a register a man cannot tell without going through every item, how he stands in relation to his various customers, and whether his business is profitable or not. It becomes necessary that his transactions should also be classified under various heads, as for example the names of various customers dealt with or of various articles dealt in; and that the results of transactions under these heads should be arranged in such a form as to show clearly not merely the significance of each separate transaction but also the combined effect of any desired series of transactions. The process through which these ends are effected is called "accounting" \*.

✓ 4. *Keeping of Accounts.*—Keeping of the accounts involves compilation. To compile is to compose and arrange materials collected from other records. As will be explained later, the initial accounts of Government transactions in Pakistan are prepared by the authorities through whom the transactions occur, those authorities being unconnected with the Pakistan Audit Department. So far as accounts are concerned, the duty of the Pakistan Audit Department is to compile, under different heads prescribed for Government account, those initial accounts which under the rules are required to be rendered to it for compilation, and to arrange the results of transactions under those heads in such a form as to bring out the combined result of all the transactions which occur during a given period. It has also to compile the Combined Finance and Revenue Accounts of the Central and Provincial Governments in Pakistan, which

\* See page 1 of Book-keeping by Hamilton and Ball.



embody a summary of the accounts compiled both by the Department itself and by other agencies and include the results of the whole of the Government transactions arising both in Pakistan and abroad.

5. *Audit*.—The functions of Audit are essentially different from those of Accounts. Of the meaning of the word "audit", an excellent explanation can be given by quoting the following portions of a translation of Sir Walter Henley's "Tretyce off Husbandry", a work which dates back to the thirteenth century.\*

"Buy and sell in season through the inspection of a true man or two who can witness the business, for often it happens that those who render accounts increase the purchases and diminish the sales. Have an inspection of account, or cause it to be made by some one in whom you can trust, once a year, and (have a) final account at the end of the year. If there is any (money), let it be raised and taken from the hands of the servants

If arrears appear in the final account, let them be speedily raised. Look into your affairs often and cause them to be reviewed for those who serve you will thereby avoid the more to do wrong and will take pains to do better. In the first place he who renders accounts ought to swear that he will render a lawful account and faithfully account for what he has received of the goods of his lord, and that he will put nothing in this roll save what he has to his knowledge spent lawfully and to his lord's

And then, if he has rendered account before, see how it compares; and if he is found in arrears of money, corn, or stock, put the whole in stated money valuation, and charge it at the commencement of his roll

At the end of the year, when all the accounts shall have been rendered of the lands, the issues and all expenses of the manor, take to yourself all the rolls, and by one or two of the most intimate and faithful men you have, make very careful comparison with the rolls of the accounts rendered, and of rolls of the estimate of corn and stock, and according as they agree you shall see the industry or negligence of your servants and bailiffs.

"The lord of the manor ought to command and ordain that the accounts be heard every year, not in one place but on all the manors, for so can one quickly know everything and understand the profit and loss

The auditors ought to be faithful and prudent, knowing their business, and all the points and articles of the account in rents, outlays and returns of stock. And the accounts ought to be heard at each manor to know the profit and loss, and then can the auditors take inquest of the doings which are doubtful, and hear the complaints of each plaintiff and make the fines. The steward ought to be joined with the auditors, not as head or companion of the account, but as subordinate, for he must answer to the auditors on the account for his doings just as another. It is not necessary so to speak to the auditors about making audits, for they ought to be so prudent, and so faithful, and so knowing in their business, that they have no need of others' teaching about things connected with the accounts."

\* See Dickse's "Treatise on Auditing" for this quotation.



6. Special attention is invited to the clause which says that the lord of the manor ought to command that the accounts be *heard* every year. This shows that the word "auditor" is derived from the Latin "auditor", the ancient practice being that the parties whose accounts were audited should attend before the auditor and vouch them orally. The practice was perhaps necessary in bygone days when few people could read or write. It is possible even that the auditor himself could not read but heard the accounts read out by the clerks. The men responsible for the accounts vouched for the accuracy of the entries, and the auditor being specially chosen for his prudence, faithfulness and knowledge of the business, was able to satisfy the lord of the manor that accounts rendered, accurately portrayed the exact state of affairs.

7. *Auditor*.—"Audit" is therefore an instrument of financial control. In its relation to commercial transactions, it acts as a safeguard on behalf of the proprietor (whether an individual or a group of persons) against extravagance, carelessness or fraud on the part of the proprietor's agents or servants in the realisation and utilisation of his money or other assets, and it ensures on the proprietor's behalf that the accounts maintained, truly represent facts, and that expenditure has been incurred with due regularity and propriety. The agency employed for this purpose is called an "auditor".

8. It is essential that a similar watch should be maintained over the financial transactions of a Government, and that the agency employed for the purpose should be independent of the agents or servants of Government who are entrusted with the realisation and utilisation of public money or other assets. The task is entrusted in Pakistan to the Pakistan Audit Department. So far as its audit duties are concerned, the position of the Pakistan Audit Department in relation to Government transactions is exactly the same as that of an "auditor". It must ensure that the accounts maintained truly represent facts, that the rules and orders framed by competent authority in regard to financial matters have been obeyed, and that the expenditure has been incurred with due regularity and propriety; and it must bring to the notice of competent authority any irregularity or impropriety in connection therewith.

9. *Fundamental Principles*.—Before leaving this introduction to the subject, attention may be drawn to the way in which the principles enunciated 700 years ago in the extract quoted in paragraph 5 still apply, as will be shown in this Compilation. Prompt payment of money into the treasury; the strict following up of arrears, the necessity for accounts accurately portraying the facts, the value of checking the accounts and of conducting local inspections, periodical stock verification and the check of stock with the accounts, were fundamental principles then as they are to-day. Principles which have held good for so long a period contain the essence of importance.



## CHAPTER 2

## Government System of Accounts and Audit and Commercial System

## A.—ACCOUNTS

10. *Difference between Government and Commercial Functions.*—

The Principles of Commercial and Government Accounting differ in certain essential points. The difference is due to the fact that, while the main function of a commercial concern is to trade, that is to take part in the production, manufacture or interchange of goods or commodities between different groups or individuals and thereby to make profit, that of a Government is to govern a country and in connection therewith to administer the several departments of its activities in the best way possible.

11. *Principles and Methods of Commercial Accounting.*—A non-Government commercial concern deals primarily with the utilisation of Capital, for the purpose of making a profit; and it is interested to see at intervals how it stands in relation to its debtors and creditors, whether it is gaining or losing, what are the sources of its gain or loss, and whether it is solvent or insolvent.

12. In order to obtain ready answers to these questions the concern has to keep a system of detailed accounts. In respect of each person dealt with, each class of asset held, each article dealt in, and each department of its activities, it maintains a separate account so that the result of the transactions in each case may be ascertained. It then becomes necessary for it to collect the results of all these accounts in one place in order to record the assets and liabilities under different heads and finally to prepare the Manufacturing, Trading and Profit and Loss Accounts, and a Balance Sheet, which shall show what is the gain or loss of the concern as a whole and whether it is solvent or insolvent.

13. It is the generally accepted practice in the commercial world to maintain account books by the Double Entry system, which is based on the fact that in every transaction or financial change two parties or accounts are involved, one giving and the other receiving. Under that system every transaction, therefore, requires two entries in the books, one against the party or account giving and the other against the party or account receiving. Further, if the concern is a manufacturing one, it has also to maintain sets of books for (a) costing and (b) stores accounting, in order to ascertain as regards (a) the cost of production of each article so that its selling price may be fixed accordingly, and as regards (b) that there is an efficient system of stores control.

14. *Principles of Government Accounting.*—The activities of a good Government in any country are determined by the needs of the country. The main branches of its activities being known, it is a matter for decision what expenditure will be necessary during any year in carrying out these activities. After a decision has been reached on these points it becomes necessary to determine how to raise sufficient money to meet that expenditure.

15. The classification in the accounts of the transactions of the Central and Provincial Governments in Pakistan is determined firstly





by the administrative classification of the activities and secondly by the classification of the nature of the transactions. The accounting is therefore more elaborate than that followed in commercial accounts. But (leaving out of consideration for the present the accounting for expenditure met from Loans, and certain subsidiary and technical accounts, which will be considered in Parts IV and V of this Compilation) the immediate objective of Government accounting is not to ascertain the gain or loss on the transactions of the Government as a whole in carrying out its activities. The method of budgeting and accounting under the Service heads is not designed to bring out the relation in which Government stands to its material assets in use, or its liabilities due to be discharged at more or less distant dates. The accounting methods adopted for commercial concerns, and the preparation of Manufacturing, Trading and Profit and Loss Accounts, and a Balance Sheet, in the commercial sense, are therefore unsuitable and unnecessary. In its Budget for a year, Government is interested to forecast with the greatest possible accuracy what is expected to be received or paid during the year, and whether the former together with the balance of the past year is sufficient to cover the latter. Similarly, in the compiled accounts for that year, it is concerned to see to what extent the forecast has been justified by the facts, and whether it has a surplus or deficit balance as a result of the year's transactions. On the basis of the budget and the accounts Government determines (a) whether it will be justified in curtailing or expanding its activities and (b) whether it can and should increase or decrease taxation accordingly.

16. *Purpose of Government and of Commercial Accounts.*—Government accounts are therefore designed to enable Government to determine how little money it need take out of the pockets of the tax-payers in order to maintain its necessary activities at the proper standard of efficiency, while non-Government commercial accounts are designed to show how much money the concern can put into the pockets of the proprietors consistently with the maintenance of a profit earning standard in the concern.

17. *Commercial Undertakings conducted by Government.*—The operations of some departments of Government, however, sometimes include undertakings of a commercial or a quasi-commercial character, e.g., an industrial factory or a store. Even though these may be maintained almost entirely for the benefit of the department, it is still necessary that the financial results of the undertakings should be expressed in the normal commercial form so that the cost of the service or undertaking may be accurately known. This implies the maintenance of suitable Capital, Manufacturing, Trading and Profit and Loss Accounts, and as the Government system of accounts, being on a purely cash basis, is unsuitable for such commercial accounts, these are usually kept on a *pro forma* basis outside the general accounts of Government. The actual transactions entering these *pro forma* accounts except those adjusted on a liability basis find a place primarily in the regular accounts and the commercial accounts are additional as well as separate.

18. *Methods of Government Accounting.*—The mass of the Government accounts is kept by Single Entry. There is, however, a portion of the accounts which is kept on the Double Entry system, the main purpose of which is to bring out by a more scientific method the balances



of accounts in regard to which Government acts as a banker or remitter, or borrower or lender. Such balances are, of course, worked out in the subsidiary accounts of the single entry compilations as well, but their accuracy can be guaranteed only by a periodical verification with the balances brought out in the double entry accounts.

### B.—AUDIT.

**19. Principles of Audit.**—As stated in paragraph 8, audit should be conducted by an agency independent of the authority charged with the duty of carrying on the business and of keeping accounts of the transactions which pass through his hands. This principle is strictly observed in commercial audit, although when auditing small concerns the auditor often finds the accounts so badly prepared as to render it necessary for him to build up a very large portion of the fabric of the accounts from the initial records. This work is, however, incidental to and not an essential part of his duties as an auditor.

**20. Purpose and Procedure of Commercial Audit.**—In commercial audit at the present day the main object is to present before the proprietor or proprietors of the business an accurate statement of the position of affairs together with a profit and loss account showing how this position has been reached. In the case of Companies the duty of an auditor is mainly in the interest of the shareholders, who are practically sleeping partners in the business. The directors are the active partners; and the auditor on behalf of the sleeping partners—the shareholders—has to examine the accounts and the balance sheet prepared by the directors and to report to the shareholders whether in his opinion those accounts are correct, and fully and fairly disclose the position of affairs, or in what respects they fail to do so.

**21.** On pages 40-43 of Dicksee's "Auditing" (Fifteenth Edition) will be found a set of instructions to commercial auditors. The procedure of commercial audit as there detailed may be summarised briefly thus :—

The *first* step is to ascertain the authorities competent to sanction expenditure, to receive or pay money, or to incur liabilities, on behalf of the firm.

The *second* is to understand the system of accounts followed.

The *third* is to check as far as possible the accuracy of the original record, namely, the cash book.

The *fourth* is to see that all transactions are in accordance with the minutes of the meetings of the Board of Directors or the orders of competent authorities.

The *fifth* is to investigate unusual items.

The *sixth* is to check the compilation of the accounts from the original records and to suggest corrections in the classification of transactions.

The *seventh* is to review the procedure of stock-taking and of pricing the goods on hand.



The *eighth* is to check or prepare the financial results, that is the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, which will indicate accurately the progressive position of affairs. This necessitates also the investigation of depreciation of property (buildings, machinery, furniture, etc.), the soundness of investments, debts due to the firm, and the correct allocation of expenditure to Capital Account.

22. *Difference between a Government and a Commercial Firm necessitating differences in Audit Procedure.*—Unlike commercial audit, the audit of the transactions of the Governments in Pakistan is entrusted entirely to Government officials; and this difference has influenced largely the system of audit adopted. As will be explained in Chapter 13, the check of receipts is in most cases left to the departments responsible for the collection of revenue. Similarly, the check of stores and stock is, as will be explained in Chapters 19 and 31, almost entirely left to the departments in whose custody they are. The audit of expenditure is, however, performed mainly by the Pakistan Audit Department which is independent of the spending departments. This department is, as has already been stated, also responsible for the keeping of the major portion of the accounts which it audits. The whole of the work of auditing the expenditure is not, however, conducted by this independent department, but, as explained in paragraph 24, part of the work incidental to audit is also performed by the spending departments.

23. Pakistan is a large country and Government activities are so various that it is impossible for independent Audit Officers, working (as they do) almost entirely at headquarters, to be as closely in touch with the facts to which the accounts refer as the officers of the department in which the revenue is realised and the expenditure is incurred.

24. Thus, the Audit Officer has no personal knowledge of the quantity or quality of the work done by a contractor, of the quantity or quality of goods supplied by a supplier, of the number of coolies employed each day on a work, or of the agreement between the stores accounts and the stock of stores. The payments are in many cases made at treasuries the officers in charge of which are not members of the Pakistan Audit Department; while in others the bills are either presented to, or are prepared by, disbursing officers of other departments. Thus the preliminary examination of bills which are paid at treasuries or by disbursing officers of other departments is primarily left to Treasury Officers, or to officers of those other departments. The exact nature of the work done by these agencies will be discussed later when we attempt to deal with the details. For the present it is sufficient to remember that under the Government system of audit the executive officers of the spending departments, as well as officers in charge of treasuries, take an important share in the scrutiny of expenditure.

25. Another point of difference between commercial and Government audit is that, whereas the former is more often than not periodical, the latter is almost entirely continuous. This is due to the greater volume of work to be done and to the fact that a large part of it is concerned with personal claims which have to be finally adjusted with the utmost promptitude.



26. *Government Audit as compared with Commercial Audit.*—It is obvious that these differences in conditions must alter in detail the system of audit; and it is interesting to compare with the main factors of commercial audit, set out in paragraph 21 above, the main objects of Government audit, which, as set out in the Audit Code, are to ensure—

- (a) that there is provision of funds for the expenditure duly authorised by competent authority;
- (b) that the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it;
- (c) that payment has, as a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against Government on the same account is impossible;
- (d) that the charge is correctly classified, and that (as in the case of Public Works and Forest accounts) if a charge is debitable to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account;
- (e) that in the case of audit of receipts, (i) sums due are regularly recovered and checked against demand and (ii) sums received are duly brought to credit in the accounts;
- (f) that in the case of audit of stores and stock, where a priced account is maintained, stores are priced with reasonable accuracy, and that the rates initially fixed are reviewed from time to time, correlated with market rates and revised when necessary;
- (g) that the articles are counted periodically and otherwise examined for verification of the accuracy of the quantity balances in the books and that the total of the valued account tallies with the outstanding amount in the general accounts and that the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores; and
- (h) that expenditure conforms to the following general principles which have for long been recognised as standards of financial propriety, namely,—
  - (1) that the expenditure is not *prima facie* more than the occasion demands, and that every Government servant exercises the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money,
  - (2) that no authority exercises its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage;



- (3) that public moneys are not utilised for the benefit of a particular person or section of the community unless—
- (i) the amount of expenditure involved is insignificant, or
  - (ii) a claim for the amount could be enforced in a court of law, or
  - (iii) the expenditure is in pursuance of a recognised policy or custom,

and (4) that the amount of allowances such as travelling allowances, granted to meet expenditure of a particular type is so regulated that the allowances are not on the whole sources or profit to the recipients.

27. This comparison is made in detail below.—

- (a) *The first and fourth steps of commercial audit,—to ascertain the authorities competent to sanction expenditure or to receive or pay money, etc., and to see that the transactions are in accordance with the minutes or orders.*

These correspond with clauses (a) and (b) of paragraph 26. In Government accounts the minutes and orders are represented by the Government of India Act, 1935 (Adapted) and the Orders in Council issued thereunder, and the rules, directions and orders of a financial character issued by the Central Government, the Provincial Governments and other authorities. The volume of such orders is immense, and this portion of audit is so important quantitatively and qualitatively that it tends to overshadow all the other branches.

- (b) *Second step of commercial audit,—understanding the system of account followed.*

It is unnecessary to put this forward as a main object of Government audit, because in Pakistan the form in which the initial accounts should be kept and that in which the accounts should be rendered to the Audit Department are largely determined by the agency which audits them and, after a certain point, also compiles the major portion of them. The system of accounts followed is described in the Account Code and in the relevant Departmental Codes and Manuals.

- (c) *Third step of commercial audit,—check of the accuracy of the original record.*

- (d) *Fifth step of commercial audit,—investigation of unusual items.*

This corresponds with clause (h) of paragraph 26.

- (e) *Sixth step of commercial audit,—check of the compilation of accounts and of the classification of transactions.*

Clause (c) of paragraph 26 may be held to correspond with this. But, as stated in paragraphs 23 and 24, the check of the accuracy of the original records is left to a great extent to the executive officers of the spending departments, and this check is supplemented by a test audit at regular intervals by officers of the Pakistan Audit Department.

Checking of the compilation of accounts is not specifically mentioned in the list of objects of Government audit. As stated in clause (b) of this paragraph, the greater number of the accounts are, after a certain point, built up by the auditing agency itself and the preliminary accounts are checked by the Audit office as explained in clause (c). The



compilation made in the Audit office is test-checked within the department; and in the cases where accounting is separate from audit and the compilation of accounts is left to the administrative departments, every process of compilation leading up to the final account is test-checked by the Pakistan Audit Department.

In Government audit the classification is thoroughly checked by the Pakistan Audit Department where that department is responsible for the keeping of accounts, and is test-checked where the keeping of accounts is left to the administrative department.

(f) *Seventh step of commercial audit,—check of the accuracy of the accounts of stores or goods.*

This corresponds with clauses (f) and (g) of paragraph 26.

(g) *Eight steps of commercial audit,—the preparation of the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, necessitating the investigation of depreciation of property, the soundness of investments, debts due to the firm, and the correct allocation of expenditure to Capital Account.*

In the ordinary accounts of Government there is nothing to compare with these accounts which form the summary of the financial transactions of a commercial firm during a certain period. The place may be said to be taken by the annual Budget Statements and by the annual Finance Accounts of the Central and Provincial Governments. However, in the case of Government undertakings of a quasi-commercial character, the financial results are ascertained and reviewed outside the regular accounts through *pro forma* accounts which are prepared separately for the purpose, and these *pro forma* accounts are prepared on a strictly commercial basis.

In the regular Government accounts the correct allocation of expenditure to revenue or capital heads of account is checked by the Audit Department.

28. Mr. Dicksee in his work on Auditing states that the objects of audit may be said to be threefold—

- (1) detection of fraud,
- (2) detection of technical errors.
- (3) detection of errors of principle.

Here again due allowance has to be made for the differences in conditions between Government and a commercial firm, and the differences between the agencies which prepare and audit the accounts in the two cases. Thus in Government audit there is little scope for detection of errors of principle (that is, in the system of accounts adopted) as the responsibility for determining or advising as to the form in which accounts should be kept devolves upon the Auditor-General of Pakistan. The other two objects are, however, sufficiently provided for under the Government system as explained below.

29. As regards the detection of fraud, it must be remembered that, as explained in paragraph 24, part of the work in connection with the scrutiny of expenditure, is entrusted, for the sake of convenience and economy, to the officers of the spending departments. A fraud in respect



of expenditure would in some cases indicate a payment to which the payee is not legally entitled, or in others a payment made in respect of a claim which is not in accordance with the facts. Under the existing arrangements the certification as to the initial facts is left to the executive officers, and the Audit Department verifies a certain percentage of them at local inspections. Most of the frauds are thus checked or detected in the course of the scrutiny by the executive officers. The Audit Officers also render valuable assistance in indicating directly or indirectly to the executive officers defects or irregularities which require their attention. This subject will be discussed in detail in Chapter 10, and it will suffice to state here that the checks prescribed for executive officers, supplemented by occasional local audit and continuous central audit, sufficiently provide for the detection of fraud in the Government system of audit. As to the detection of technical errors, the bulk of the work of the Audit officers used to fall under this category; and it was one of the chief complaints against the Audit Department that this had been their main work.

30. It is apparent that this was not altogether a fair criticism inasmuch as it overlooks the following facts :—

- (a) the officers of the Department have moulded and still mould the form of the accounts and thus prevent errors of principle ;
- (b) wherever they have started work in a fresh field, as in Local Fund audit, their pioneer work has been very valuable ;
- (c) their indirect work in the prevention and detection of fraud is important ; and
- (d) the enormous number of objections raised is due to—
  - (i) the extreme elaboration of the rules to be applied in audit,
  - (ii) the mistakes made in the preparation of bills,
  - (iii) lack of intelligence or undue rigidity on the part of the auditor.

Critics ought not to forget, as they sometimes do, that the officers of the Department are not responsible for cause (ii), while the ultimate responsibility for cause (i) rests with Government even though they may have sought the advice of officers of the Pakistan Audit Department in framing the rules. As regards cause (iii), it is important that officers of the Department should rectify it in so far as they are empowered to do so ; but the "rigidity" of which complaint is still made is often due to the rigid character of statutory rules which admit of no relaxation otherwise than by a revision of the rules themselves.

31. The Constitutional Reforms of 1919, which invested Audit with a higher responsibility and a greater power of initiative, enabled Audit Officers to devote more attention to the broad principles of orthodox finance and to the manner in which the various executive officers undertake their more important financial responsibilities. The provisions of the Government of India Act, 1935 (Adapted) and the Pakistan (Audit and Accounts) Order, 1952, have in no way affected the responsibility of Audit in this matter.



## CHAPTER 3

**The Position and Functions of the Auditor-General of Pakistan**

32. *Position of the Auditor-General.*—The office of the Auditor-General was for the first time recognised statutorily with the introduction of the Constitutional Reforms of 1919 and in audit matters he was made by statute independent of the Government of India. He was also recognised as the administrative head of the Indian Audit Department, subject to control in some respects by the Government of India, and was given extensive powers in regard to Government Accounting. Even before the advent of the 1919 Constitution, the Auditor General was independent of the Government of India in audit matters; and, although the Governor-General had the right of appointing him and removing him from office, in both cases the approval of the Secretary of State in Council had to be obtained. This position was, however, secured by executive orders issued by the Secretary of State, whereas under the Reforms of 1919 there was a statutory recognition of the special features and prerogative of his office by a formal provision in the Government of India Act itself.

33. Under the provisions of the Government of India Act, 1935, (Adapted), hereinafter referred to as "the Act", the independence of audit in relation to the authorities whose transactions are audited is fully secured. Section 166 of the Act provides that the Auditor-General shall be appointed by the Governor-General and shall only be removed from office in like manner and on the like grounds as a Judge of the Federal Court. Under sub-section (2) of this Section the conditions of service of the Auditor-General have been prescribed by the Pakistan (Audit and Accounts) Order, 1952, hereinafter referred to as "the Audit and Accounts Order". This Order also deals with the duties and powers of the Auditor-General in relation to the accounts of the Central and Provincial Governments, but according to sub-section (3) of Section 166 of the Act, these duties and powers are subject to variation or extension by an Act of the Central Legislature.

34. The Audit and Accounts Order is, however, silent on the subject of the administrative and financial powers of the Auditor-General. These matters have been settled by arrangements under the other provisions of the Act. The Auditor-General of Pakistan continues to be the administrative head of the Pakistan Audit Department and subject to the provisions of paragraph 19 of the Audit and Accounts Order his statutory responsibilities in relation to the transactions of the Central and Provincial Governments are discharged by officers authorised by him. The Auditor-General derives his administrative as well as his financial powers by delegation from the Central Government. These powers are detailed in the compilation known as the "Auditor-General's Manual of Standing Orders". The powers delegated to the Auditor-General are very large so that an ample degree of administrative independence should serve to guarantee his audit independence. In the final event, however, the powers of the Auditor General to impose standards of accounting and of audit are conditioned by the limitations on his powers of sanctioning expenditure and obtaining funds.



✓ 35. *Duties and Powers of the Auditor-General in regard to Accounts.*—The duties and powers of the Auditor-General in relation to accounts of the Central and Provincial Governments are laid down in Section 168 of the Act, in paragraphs 11, 12 and 15 to 17 of the Audit and Accounts Order and in the Initial and Subsidiary Accounts Rules issued by the Governor-General in pursuance of paragraph 11(3) of the latter Order. Section 168 of the Act empowers the Auditor-General with the approval of the Governor-General to prescribe the form in which the accounts of the Central Government are to be kept and with the like approval to give any directions with regard to the methods or principles in accordance with which any accounts of Provinces are to be kept. This provision is designed to secure the maximum degree of uniformity in accounting amidst the immense volume and variety of financial transactions of different Governments in Pakistan. Sub-paragraph (1) of paragraph 11 of the Audit and Accounts Order makes the Auditor-General statutorily responsible for the keeping of the accounts of the Central Government and of each Province, other than the accounts relating to the Defence and Railway Departments and accounts relating to transactions in the United Kingdom. This sub-paragraph, however, as it reads makes the Auditor-General responsible for keeping all accounts of the Central Government and of the Provinces down to the initial accounts kept in treasuries and departmental offices. In order to remove this difficulty sub-paragraph (3) of paragraph 11 of the Order provides that the Governor-General, may, after consultation with the Auditor-General, make provision by rules for relieving the Auditor-General from responsibility for keeping accounts of any particular class or character. The Governor-General has accordingly made the Initial and Subsidiary Accounts Rules under which the Auditor-General is relieved of the responsibility for keeping initial accounts kept in treasuries and departmental offices including accounts of stores and stock, trading, manufacturing and profit and loss accounts that may be required to be kept in any particular office or department. It is, however, necessary that the Auditor-General in order to discharge adequately his responsibility for the keeping of the main accounts of a Government should have authority to determine the form of compiled accounts rendered to offices under his control as well as the form of initial accounts and records from which these accounts are compiled. Necessary provision has therefore been made in the Initial and Subsidiary Accounts Rules mentioned above to the effect that the relieving of the Auditor-General from the responsibility for keeping initial accounts in treasuries and departmental offices shall not impair his authority to prescribe the form in which accounts are to be rendered to his offices and the forms in which initial records on which such accounts are based are to be kept. It has, however, been held that the Auditor-General also derives this power to prescribe the form of the initial and subsidiary accounts direct from Section 168 of the Act. The Auditor-General has thus two alternative methods by which he can prescribe the form of initial and subsidiary accounts and of the accounts rendered to his offices, that is, either under Section 168 of the Act with the approval of the Governor-General or under Initial and Subsidiary Accounts Rules on his sole authority.



36. Under sub-paragraph (5) of paragraph 11 of the Audit and Accounts Order, a decision on a question of classification rests in the last resort with the Governor-General or with the Governor of a Province, as the case may be. Before reaching a decision on a question of classification, the Governor-General or a Governor is required to consult the Auditor-General, but the latter is bound to give effect to the decision, though in his auditorial capacity he has every right to criticise it.

37. Under sub-paragraph (4) of paragraph 11 of the Audit and Accounts Order, the Auditor General has to prepare in each year comprehensive accounts of receipts and expenditure of each Government, classifying the transactions under respective heads, and to submit them to the Governments concerned. These accounts are designated the Finance Accounts. Beside these accounts, the Auditor General has also to submit annually to each Government in respect of accounts kept by him, Appropriation Accounts, that is, accounts relating to expenditure brought into account during a financial year to the several items specified in the schedules of authorised expenditure authenticated under section 35 or 80 of the Act. The form of these accounts is determined by the Auditor General in consultation with the Government concerned.

38. Under paragraph 12 of the Audit and Accounts Order, the Auditor General has to prepare annually in such form as he with the concurrence of the Governor-General may determine and to submit to the Governor-General a General Financial Statement incorporating a summary of the accounts of the Central Government and of all the Provinces for the preceding financial year and particulars of their balance and outstanding liabilities and containing such other information regarding their financial position as the Governor-General may direct to be included in the Statement. This General Financial Statement is known as the Combined Finance and Revenue Accounts of the Central and Provincial Governments in Pakistan.

39. Under the provisions of paragraph 15 of the Audit and Accounts Order, it is the duty of the Auditor General, so far as the accounts for the keeping of which he is responsible enable him so to do, to give to the Central Government and to the Government of every Province such information as they may from time to time require and such assistance in the preparation of their annual financial statements as they may reasonably ask for. Paragraph 17 of the Order empowers the Auditor-General to inspect any office of accounts in Pakistan which is under the control of the Central Government or of a Province, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts as submit accounts to him. Such a provision is necessary in order to ensure the correctness and accuracy of the initial and subsidiary accounts kept in treasuries and departmental offices.

40. *Duties and Powers of the Auditor-General in regard to Audit.*—Paragraph 13 of the Audit and Accounts Order contains the fundamental provisions relating to Audit, and runs as follows :—

“13. (1) It shall be the duty of the Auditor-General—

- (i) to audit all expenditure from the revenues of the Federation and of the Provinces and to ascertain whether moneys



shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it ;

- (ii) to audit all transactions of the Federation and of the Provinces relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business ;
- (iii) to audit all trading, manufacturing and profit and loss accounts and balance sheets kept by order of the Governor-General or of the Governor of a Province in any department of the Federal Government or of the Province ;

and in each case to report to the Governor-General or as the case may be to the Governor on the expenditure, transactions or accounts so audited by him.

(2) The Auditor-General may with the approval of, and shall if so required by, the Governor-General or the Governor of any Province audit and report on—

- (i) the receipts of any department of the Federation or, as the case may be, of the Province ;
- (ii) the accounts of stores and stock kept in any office or department of the Federation or, as the case may be, of the Province.

The Governor-General or the Governor of a Province may after consultation with the Auditor-General make regulations with respect to the conduct of audits under this sub-paragraph.

41. The phraseology employed in clause (1) of the paragraph of the Audit and Accounts Order quoted above follows closely the wording of the Exchequer and Audit Department Act of the United Kingdom, the duty of the Audit Department being stated as being the duty of auditing certain specified accounts and of reporting upon them. No attempt has, however, been made to define "audit" itself with the attendant risk of limiting through legal definition the authority and discretion which the Audit Department ought rightly to exercise.

It has been held that the power to make rules as to the nature and extent of audit to be applied and the procedure to be followed in the raising and pursuing of objections is inherent in the provisions under paragraph 13 and other relevant provisions of the Audit and Accounts Order. In regard to settlement of objections, the procedure to be adopted is governed by the relations which have been established between the Auditor-General and the Executive Governments and particularly the Finance Department of each Government. This matter is dealt with in some detail in Chapter 21.

42. The provision of the Audit and Accounts Order imposes the duty of auditing and reporting on the Auditor-General, but there is a



general provision in paragraph 19 of the Order under which the Auditor General may delegate his powers to an officer authorised by him. This provision runs as follows :—

“19. Anything which under this Order is directed to be done by the Auditor-General may be done by an officer authorised by him, either generally or specially :

Provided that except during the absence of the Auditor-General on leave or otherwise, an officer shall not be authorised to submit on his behalf any report which the Auditor General is required by the Act to submit to the Governor-General or the Governor of the Province.”

43. It has been held that sub-section (3) of Section 166 of the Act is exhaustive of the means whereby duties and powers can be imposed statutorily upon the Auditor General. Consequently, no additional duties can be imposed on the Auditor General either by the Central or the Provincial Legislature or by an executive direction of a Central or Provincial authority otherwise than in relation to the accounts of the Central Government or of the Provinces. There is, however, nothing in the Act to preclude the Auditor General from undertaking any additional duties by consent and on such terms and conditions as may be settled upon between him and the Government concerned after consultation with the Governor-General. This is the position in respect of the audit by the Auditor General of the accounts of local authorities and public or *quasi*-public bodies, *e.g.*, Cantonment Funds, Municipal Funds, etc., under the control of the Central and certain Provincial Governments. If it were desired to attach statutory authority to the performance by the Auditor General of such additional duties by consent, there would be nothing to prevent the inclusion in the Central or a Provincial Legislation, otherwise within the competence of the Central or the Provincial Legislature respectively, of a provision to the effect that the accounts of any specified public body would be audited by the Auditor General during such time as the Auditor General with the concurrence of the Governor-General consented to do so and otherwise by some specified agency. The duties at present imposed on the Auditor General (or any of his officers) otherwise than in relation to the accounts of the Central Government and of the Provinces remain in force only on such consent basis.

44. As will be seen from paragraph 40, the Audit and Accounts Order merely imposes on the Auditor General the duty of making a report on the expenditure, transactions or accounts audited by him. The provision relating to the submission of these reports so far as they relate to the accounts of the Central and Provincial Governments is contained in Section 169 of the Act. According to this Section, the Auditor General shall submit his reports relating to the accounts of the Central Government to the Governor-General who shall cause them to be laid before the Central Legislature and his reports relating to the accounts of a Province to the Governor of the Province who shall cause them to be laid before the Provincial Legislature. These reports which are submitted with the accounts referred to in paragraph 11 (4) of the Audit and Accounts Order comprise the Report on the Finance Accounts and the Report on the Appropriation Accounts. The form of these Reports is determined by the Auditor General who, in doing so, gives



due weight to the views and requirements of Governments and Legislatures.

45. Deleted.

46. Deleted.

47. *Other Statutory Duties of the Auditor General.*—Besides the duties and functions relating to the keeping and auditing of and reporting upon the accounts of the several authorities in Pakistan, the Auditor General may be required—

- (i) under Section 139 (3) of the Act to determine the amount of contribution payable by the Ruler of any Federated State to the Federal Revenues in lieu of levying Corporation Tax in such a State ;
- (ii) under Section 144 (1) of the Act to ascertain and certify the net proceeds of any tax or duty mentioned in Chapter 1 of Part VII of the Act, or of any part of such tax or duty, in or attributable to any area.

48. *Arrangements in regard to the Accounts of Government transactions in the United Kingdom.*—Under paragraph 11 (1) of the Audit and Accounts Order, the Auditor General has been relieved from the responsibility for the keeping of the accounts of the transactions in the United Kingdom affecting the revenues of the Central and Provincial Governments and these accounts are kept by the Chief Accounts Officer to the High Commissioner for Pakistan. It has, however, been arranged that all transactions of the Central and Provincial Governments in the United Kingdom with the exception of those representing genuine sterling liabilities or assets of the Central Government should be passed on to Pakistan monthly through the Account Current to be brought to account along with similar transactions in this country.

The audit of the accounts kept by the Chief Accounts Officer is, however, the function of the Auditor General of Pakistan.

49. Deleted.

50. Deleted.

As stated in paragraph 53, the full independence of Audit is absolutely safeguarded under the arrangements introduced by the Act.

53. Separation of Accounts from Audit.—In 1924 an experimental scheme of separation of Accounts from Audit was introduced on the other side in the United Provinces and also in certain departments of the Central Government. This experiment the cost of which was borne by the Central Government was abandoned in 1931 with the approval of the Secretary of State expressly on financial grounds as the separated Accounts system was found to be more expensive. The question



## CHAPTER 4.

**Theory of Independence of Audit—Combination of Functions in relation to Accounts and Audit.**

**51. Auditor's Independence of the Accounting Authorities.**—We have already seen, in paragraphs 8 and 19, why it is desirable, in the interests of honest and sound finance, that business transactions should be subjected to the audit scrutiny of an agency independent of that charged with the duty of keeping the accounts of those transactions. Theoretically, the same principles should apply equally to Government transactions in Pakistan. In practice, however, a system has grown up under which the accounts of transactions of the Central and Provincial Governments, with the exception of the accounts of the Railway and Defence Departments and those of the High Commissioner for Pakistan in U. K. are kept and audited by one and the same agency, namely, the Pakistan Audit Department. It may now be said that while the procedure generally in force in Pakistan provides a complete and independent audit of the transactions themselves, it does not provide for the audit of any but purely initial accounts except in the case of the Railway and Defence Departments and the office of the High Commissioner in U. K.

**52. Auditor's Independence of the Executive.**—The theory that Audit should be independent of the authorities responsible for the transactions is based on the proposition that the conditions of an auditor's office should enable him to discharge, without fear or favour, his duty of scrutinising the financial actions of various authorities and that he is not free to do so if he is dependent on one of those authorities whose orders he may have to challenge. Further, the power of voting money, given to the Central and Provincial Legislatures by the Act, would be valueless unless the Legislatures were assured that the Executive is spending the voted money for the purposes for which it was voted. It must be evident that the control of the Legislatures would be merely nominal if they were not assured of a powerful and independent Audit, free to bring to their notice diversions of voted funds without interference or influence from the Executive. It undoubtedly strengthens the hands of Government also to be in a position to point to an audit authority over which they have no executive influence or control. The true value of an Audit independent of the Executive is therefore to be gauged not by the irregularities which it actually discovers but by the certain effect of the knowledge that the auditor can and will, without fear or favour, report them if they come to his notice. That knowledge constitutes in itself the most effective security against irregularity.

As stated in paragraph 33, the full independence of Audit is adequately safeguarded under the arrangements introduced by the Act.

**53. Separation of Accounts from Audit.**—In 1924 an experimental scheme of separation of Accounts from Audit was introduced on the other side in the United Provinces and also in certain departments of the Central Government. This experiment the cost of which was borne by the Central Government was abandoned in 1931 with the approval of the Secretary of State expressly on financial grounds as the separated Accounts system was found to be more expensive. The question whether



this system or the system of combined Accounts and Audit is the more correct in principle is still open. The view now held is that the present association of Audit with Accounts gives the former a much closer insight into financial administration generally, a much greater opportunity of assisting the Finance Ministry especially in terms of the concordats governing the relations of the Auditor-General with Finance Ministries, and does not in practice hamper financial administration. Separation of Accounts from Audit has, however, been definitely established in the case of Railway Accounts and brought into force as a permanent measure, while in the case of the Defence Services, the accounting authorities have never been really subordinate to the Auditor-General, except for the short period from 15-8-1947 to 30-6-1949. The system of "separation" in these departments has been completed by an arrangement under which the Auditor-General performs his statutory audit duties by means of a test audit of the independently compiled accounts through a separate audit staff.

**54. Possible Changes relating to the Keeping and Audit of Provincial Accounts.**—So long as the Auditor-General of Pakistan remains responsible for the keeping and audit of the accounts of Provincial Governments the whole cost of combined Audit and Accounts offices performing those functions will continue to be borne by the Central Government. But if and when a Provincial Legislature in pursuance of Section 167 of the Act passes an Act charging the salary of an Auditor-General for that Province on the revenues of the Province, the responsibility of the Auditor-General of Pakistan for the audit of the accounts of that Province will naturally cease. It may be assumed that, in such circumstances, the Province will simultaneously take over the responsibility for keeping its accounts, and the machinery of accounts and audit which will in such a case be introduced in the Province is more likely to be the present combined system of accounts and audit which has served so well rather than the system of separated accounts and audit which is definitely more expensive.



**Distribution of Responsibility for the Keeping and Audit of  
Accounts in Pakistan.****CHAPTER 5.****A.—GENERAL.**

**55. *Distribution of Accounting and Audit Duties.***—It will be evident from the description given in the preceding chapters that, while the Pakistan Audit Department under the Auditor-General is solely responsible for conducting the audit of Government transactions, the duty of keeping the accounts of those transactions is divided between that department and certain administrative departments of Government. The volume and variety of the transactions with which the Pakistan Audit Department has to deal necessitate the work of the department being distributed over a number of offices at different centres, while the work of keeping the accounts which is not entrusted to the Auditor-General is also conducted at different places. In order to understand how the accounting and audit duties, the details of which will be described in the subsequent Parts of this Compilation, are carried on it is necessary to glance at the allocation of these duties over several offices and departments. For the sake of convenience, the distribution of audit work is considered first.

**B.—DISTRIBUTION OF AUDIT WORK.**

**56. *Main Branches of the Pakistan Audit Department.***—The Pakistan Audit Department is divided into four classes of offices, namely, the Civil Audit offices, which audit the transactions of the Civil, Public Works and Forest Departments, and the Railway, Posts and Telegraphs and Defence Services Audit offices, which audit the transactions of the departments after which they are named.

**57. *Channels of Control by the Auditor-General.***—The Auditor-General of Pakistan fulfils his statutory responsibility for audit (*vide* paragraph 40) through the Heads of Civil and Posts and Telegraphs Audit offices and the Directors of Audit, Defence Services and Railways, who control respectively the four classes of offices.

**58. *Civil and Posts and Telegraphs Audit Offices.***—The titles of the Heads of the Civil and P. & T. Audit offices and the audit work allotted to each are stated below :—

- |                                                |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------|---|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (1) Accountant General, Punjab.                | } | These officers audit the transactions of the Government of their respective Provinces and most of the Central (Civil) transactions occurring in those Provinces. The Accountants General, Punjab and East Bengal also undertake audit of Posts and Telegraphs transactions. The Accountant General, East Bengal, and the Accountant General, Pakistan Revenues undertake audit of the customs revenue accounts of the ports in East and West Pakistan respectively. |
| (2) Accountant General, East Bengal,           |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| (3) Comptroller, North-West Frontier Province. |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| (4) Comptroller, Sind.                         |   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |



(5) Accountant General, Pakistan Revenues.

This officer audits the transactions (other than those which occur in the Provinces and are audited by the Provincial Accountants General and Comptrollers) of the Central Government including the transactions pertaining to the Karachi Administration, but excluding those relating to the Defence, Railway and P. & T. Departments or falling within the jurisdiction of the A. O., I. S. & F.

(6) Audit Officer, Industries, Supply and Food.

This officer audits transactions of the Industries, Supply and Development and the Food Departments of the Government of Pakistan.

**59. Railway Audit Offices.**—The Railway Audit offices, which conduct audit only, and have no responsibility for the keeping of accounts, are under the control of the Director of Railway Audit. There are two important Railways in Pakistan which are worked by Government and there are two audit offices apart from the co-ordinating office of the Director of Railway Audit himself for auditing their accounts. The titles of the Heads of these offices are given below :—

- (i) Chief Auditor, East Bengal Railway,—with headquarters at Chitagon.
- (ii) Chief Auditor, North-Western Railway,—with headquarters at Lahore.

These Audit officers audit the accounts of the Railways indicated by their titles.

**60. Post and Telegraphs Audit Offices.**—In India Posts & Telegraphs Audit Offices were under the control of the Accountant General, Posts and Telegraphs. As, however, there is no post of Accountant-General, Posts & Telegraphs in Pakistan, his work is being done in the office of the Auditor-General of Pakistan through the Accountants General, Punjab and East Bengal, who have in their offices separate Posts & Telegraphs Audit wings each of which is in the charge of a Deputy Accountant-General.

**61. Defence Services Audit Offices.**—The Defence Services Audit offices of which there are four, are under the control of the Director of Audit, Defence Services, who is stationed at Karachi, and are responsible for audit only, and not for the keeping of accounts.

**62. Audit of Government Commercial Undertakings.**—The Audit of commercial accounts of Provincial concerns is conducted by the Outside Audit branches of the offices of the Provincial Accountants General and Comptrollers. The audit of commercial accounts of the Central Government concerns on the civil side is carried out on behalf of the Accountant General, Pakistan Revenues, by the Provincial Accountant General or Comptroller within or near whose territorial jurisdiction the particular concern is situated, or directly by the Accountant General, Pakistan Revenues, as is found most convenient and economical in individual cases. The audit of commercial accounts of the Central Government concerns on the Defence side is carried out by the Director of Audit, Defence Services.



## C.—DISTRIBUTION OF ACCOUNTING DUTIES.

**63. Transactions of the Civil, Public Works and Forest Departments.**—All the Civil Audit offices mentioned in paragraph 58 are combined Audit and Account offices. They compile the accounts of the transactions which they audit.

**64. Transactions of the Railway Department.**—The accounts of the transactions of the Railway Department are under the immediate charge of the Financial Adviser, Communications. The Financial Adviser has under him two officers, each designated as Financial Adviser and Chief Accounts Officer, for compiling the accounts of the two Railways and rendering advice to the Railway Administrations in financial matters.

**65. Transactions of the Posts and Telegraphs Department.**—The Posts and Telegraphs Audit offices are combined Audit and Account offices dealing with the transactions of their respective Circles. The Auditor General, (Posts and Telegraphs, Section), compiles the final account of the Department.

**66. Transactions of the Defence Services.**—The keeping of the accounts of the Defence Services is wholly done by the Military Accounts Department, the actual arrangement in regard to which is described in Chapter 9.

**67. Commercial Accounts.**—*Pro forma* Accounts of Government commercial enterprises are maintained by the department responsible for carrying out the activities of the commercial concern. In certain circumstances the assistance of officers of the Pakistan Audit Department who have specialised in commercial accounts may be requisitioned to organise a commercial accounting system and to guide the work of the departmental accountant until he becomes competent to perform his accounting duties.



## PART II

## The Pakistan Financial Structure and the Initial Accounts.

## CHAPTER 6

**General Structure of the Financial Administration in Pakistan.**

68. *Structure of Administration.*—For the purpose of administration, Pakistan is divided into four autonomous Governors' Provinces, namely, the Punjab, East Bengal, the North-West Frontier Province, and Sind, and two Chief Commissioners' Provinces of Baluchistan and Karachi. Over this congeries of Provinces presides a Central Government dealing with matters, both internal and external, of common interest to the whole of Pakistan.

69. The administration of each of the autonomous Provinces is entrusted to a Governor. The Governor of a Province is now appointed by the Governor-General. The executive authority of a Province is exercised by the Governor either directly or through officers subordinate to him. The Governor has a council of ministers to aid and advise him in the exercise of his functions.

In the Central sphere, executive authority is exercised by the Governor-General either directly or through officers subordinate to him, but this does not prevent the legislature from conferring functions upon subordinate authorities. There is a council of ministers to aid and advise the Governor-General in the exercise of his functions.

A Chief Commissioner's Province is administered by the Governor General acting, to such extent as he thinks fit, through a Chief Commissioner who is recognised as the head of the local Administration of the Province.

70. The initial responsibility for the administration of each department of Government activities in a Province is laid upon the head of the department concerned, who is controlled and guided in this respect by the Government to which he is subject. In financial matters, each head of a department is thus responsible for the collection of revenue and for the control of expenditure pertaining to his department, the receipt and disbursement of which are effected at various places and through various persons.

71. *Finances of Provincial Governments.*—The finances of each Governor's Province are separate from those of the Central Government and of other Governor's Provinces. Each such Province has a separate Public Account of its own into which moneys received on account of the revenues of the Province are paid and credited and from which disbursements of or on behalf of the Province are met. All receipts and payments pertaining to the Central Government are paid into and met from the Public Account controlled by the Governor General. The sources of Provincial revenue and taxation are also to a large extent distinct from those of the Central Government. The financial arrangements embodied in the Act provide, however, for assignment to the



Provinces of a definite share of the proceeds of Income-tax and its distribution among them in a prescribed manner, and allocation to the jute-growing Province of a prescribed share of the net proceeds of the excise duty on jute or jute products. Certain taxes (e.g., duties on succession to property other than agricultural land, stamp duties on bills of exchange, etc.) are to be levied and collected by the Centre, though the net proceeds are to be distributed to the Provinces subject to the right of the Centre to levy a surcharge for its own purposes. In the same way the whole or a share of the yield of duties on salt and also of Central excise duties may be assigned to the Provinces by an Act of the Central Legislature. Provision has also been made for grants-in-aid to certain Provinces which are in need of such assistance from the Centre. The Provincial Governments have now within the country powers of borrowing upon the security of their revenues subject, however, to the conditions and restrictions imposed by the relevant provisions of the Act.

72. *Treasuries.*—All the Provinces mentioned in paragraph 68 are divided into a number of "districts" and at the headquarters of each district there is a Government treasury called the "District Treasury" with one or more sub-treasuries distributed through the district. The treasuries situated in a Governor's Province are controlled by the Provincial Government and are called Provincial treasuries, while the treasuries situated in a Chief Commissioner's Province and in certain areas in Pakistan States administered by the Central Government are called Central treasuries. The treasuries are the units of the fiscal system and the points at which the public accounts start. Into these treasuries are paid the receipts of Government and from them are disbursed the payments on behalf of Government. Generally, when any one has a payment to make to Government, he presents the money with a *chalan* at a treasury and receives a receipt for it; when he has a payment to receive from Government, he presents at a treasury a receipted bill, or a cheque issued in his favour by a competent officer, and obtains payment on it. Under agreements made by the Central Government and each Provincial Government with the State Bank of Pakistan the treasury business of each Government is conducted for it by the State Bank of Pakistan at every station at which the latter has its office or branch or at which there is a branch of the National Bank of Pakistan serving as its agent. This decentralisation of treasury work is a feature of the Pakistan financial system which should be clearly grasped at the outset as it conditions the whole of the subsequent arrangements. It is this feature of the Pakistan system which marks the essential difference from the financial system in England where the public receipts and payments are all centralised at the Bank of England in London and there are no outlying State treasuries.

73. *Deleted.*

74. Consequent on the coming into force of the Government of India Act, 1935, the balances of the Provincial Governments were completely separated from that of the Central Government and Provincial Governments became responsible for the management of their own balances and consequently for their resource and ways and means operations. The physical cash as on 1st April 1937 in Provincial treasuries and sub-treasuries whose cash business was not conducted by the Reserve Bank



became entirely the property of the Provincial Governments. The previous arrangement under which, in relation to treasury balances in a Province, the Central Government acted as the banker and the Provincial Government as the client was completely reversed from 1st April 1937; and in respect of Central transactions arising in Provincial non-bank treasuries, i.e., treasuries whose cash business is not conducted by the State Bank, the Provincial Government acts as the banker and the Central Government has become the client. Each Government has now a Public Account of its own and the power to prescribe the procedure to be followed in respect of the payment of moneys into the Public Account, the withdrawal of moneys therefrom and the custody of moneys therein is vested in the Governor-General or the Governor of each Province, as the case may be, and the rules issued in this behalf by these authorities are known as the Treasury Rules.

**75. Accounts with the Bank.**—The Central and Provincial Governments now keep their own separate balances and separate accounts with the State Bank. The Central Government as a general rule operates on every office and branch of the State Bank and with a few exceptions on every branch of the National Bank of Pakistan acting as the Agent of the State Bank. But the operations of a Province are confined to the offices and branches of the two Banks designated as falling within the area of that particular Province. At the offices and branches of the State Bank and of the National Bank of Pakistan acting as agent of the State Bank, the procedure is that the Treasury Officers and other officers of Government authorised to draw or pay money, distinctly classify each transaction as Central or Provincial. Thus the Bank deals with two groups of accounts, one of the Central Government and the other of the Province in which it is situated, the latter group embracing also the transactions on account of other Provincial Governments. All adjustments between the Central and Provincial Governments or between different Provinces are carried out through a separate organisation of the State Bank at Karachi, namely, the Central Accounts Section of the Bank, which operates as a Central Clearing House and acts on instructions received from various Account offices all over Pakistan. Complete accounts of the Central Government and of each of the Provincial Governments with the Bank are also maintained by the Central Accounts Section of the Bank which sends to the Accountant General or the Comptroller concerned a statement of the closing balance of the Government on the books of the Bank at the close of the accounts of each month.

**76. Transactions with other Governments.**—The Treasury Rules of each Provincial Government provide that moneys may be received and payments may be made on behalf of the Central Government and other Provincial Governments by Provincial treasuries. Transactions occurring in a Provincial treasury on account of the Central Government and all transactions on behalf of other Provincial Governments arising in a Province are carried in the first instance against the balance of the Province in which the treasury is situated, and the requisite adjustment between the Governments concerned is subsequently initiated by the Accountant General/Comptroller. Similarly, all Provincial transactions in Central Treasuries are carried initially against the balance of the Central Government pending adjustment between the balances of the Governments concerned through the State Bank.



77. *Initial Accounts.*—The revenue received and the payments made at Provincial treasuries are compiled at each district treasury into two separate monthly accounts, one for the transactions of the Central Government and the other for Provincial transactions, which are sent to the Provincial Account Officer. The Central treasuries send only one account each month to their Account Officer, and in this the transactions on account of Provincial Governments taking place at those treasuries are shown under distinct sub-heads. Transactions with or on behalf of Railways taking place at a Central or Provincial treasury are included in the accounts of the Central or Provincial Government according as the treasury is a Central or a Provincial treasury, a separate account of the transactions of each Railway being at the same time sent direct to the Railway Accounts Officer concerned.

78. In the case of certain large departments, as for example, the Defence, Posts and Telegraphs and Forest, the payments into treasuries are not made directly by the debtors of Government but in lump through the departmental officers. Similarly, in the case of these departments and of certain others, payments are made by cheques on the treasury or from lump sums drawn from the treasury by departmental officers. In the case of the Public Works Department, all payments excepting those relating to the personal claims of gazetted Government servants and establishment and in certain Provinces those relating to contingencies are paid by cheques, while the receipts realised by Public Works officers are paid into the treasury in lump. In respect, therefore, of these departments, the treasury accounts show lump transactions or payments by cheques. The officers of these departments send monthly detailed accounts of their lump transactions with the treasuries to their respective Account Officers.

79. To enable *challans*, bills, vouchers, cheques, etc., pertaining to Central transactions to be readily distinguished from those pertaining to Provincial transactions different coloured forms are used for the two categories of transactions, blue for Central and white for Provincial.

80. *Classification.*—The classification, or the marking of each item of receipt and payment according to the head of account to which it relates, is made by the departmental officers on the *chalan* or bill presented at the treasury or in the departmental accounts rendered to the Account Officers. This process is carried out in great detail, and eventually every item of receipt and payment is most carefully and minutely differentiated and classified, as is further explained in Chapter 11.

81. *Compilation.*—The monthly accounts received from the treasuries and the civil departmental officers are compiled by civil Accountants General and Comptrollers into consolidated monthly accounts of Provinces and of the Central Government (Civil). The transactions of the Central Government (Civil) taking place throughout Pakistan are consolidated from month to month by the Accountant General, Pakistan Revenues, to whom other Account Officers furnish the monthly accounts of Central transactions taking place in their account circles. The transactions of the Posts and Telegraphs, Railways and Defence Services taking place throughout Pakistan are similarly consolidated monthly by the Auditor General (Posts and Telegraphs Branch), the Financial



Advisor, Communications (Account Branch) and the Military Accountant General respectively from the figures furnished by their subordinate officers.

82. The transactions on account of the Central and Provincial Governments taking place in the United Kingdom (with the exception of those representing genuine sterling assets and liabilities of the Central Government which are finally brought to account in the High Commissioner's Accounts) are passed on monthly to Pakistan through the Account Current between England and Pakistan and are incorporated in the books of the respective Account Officers.

83. Each Civil Accountant General or Comptroller works out the progressive figures during the year of the accounts of his Province and of the Central Government (Civil), and the annual accounts which he thus compiles for the whole year are submitted to the Auditor General. Similarly, the Financial Advisor Communications (Accounts Branch) and the Military Accountant General compile the annual accounts of their respective departments and submit them to the Auditor General.

84. The annual accounts of each Government, known as the Finance Accounts, together with an Audit Report thereon are forwarded by the Auditor General to the Government concerned after the close of each year. Apart from these, the Auditor General consolidates the annual accounts submitted to him by all Account Officers, including the Account authorities in England, into one annual account for the whole country for submission to the Governor-General. This account is called the Combined Finance and Revenue Accounts of the Central and Provincial Governments in Pakistan.

85. Thus it will be noticed that the accounts are built up from below. Each of the numerous district treasuries and sub-treasuries contributes its quota; and these, together with the detailed accounts of their treasury transactions prepared by the departmental officers, proceed monthly to the various account centres, whence, after certain processes, they merge in larger streams and finally converge and concentrate in the office of the Auditor General, where they are combined into one consolidated account for the whole of Pakistan.

86. This, in broadest outline, is the method of the record, classification and compilation of the public accounts in Pakistan from the point at which the initial receipts and payments occur at the district treasuries and sub-treasuries and at the Office of the High Commissioner in London to that at which they issue in the form of a classified and consolidated account of the year's transactions for all the Governments in Pakistan.

87. *Audit.*—The audit of Government transactions in Pakistan is fully discussed in Parts III and IV of this Compilation. In a large number of cases it is conducted before compilation, either before or after the expenditure is incurred; but in some cases, to ensure expedition in the compilation of the general account of Government or department, it has to be conducted after the compilation. The audit of revenue receipts is for the most part carried out by the departmental officers who collect the Government revenues; that of expenditure in Pakistan, apart from the limited check applied at treasuries and the departmental check



exercised by departments which compile their own accounts, is conducted by the Pakistan Audit Department. Audit of Government transactions in England is conducted by the Chief Auditor to the High Commissioner for Pakistan in London.

88. *Provision of Funds.*—To complete this preliminary sketch of the financial machinery of Pakistan, it is necessary to glance at the arrangements for the provision of funds for the public service which come under the heads known as Budget, Ways and Means and Resource. These subjects are discussed in detail in the next chapter and in Chapter 16.

89. *Estimates.*—In the cold weather of each year, detailed estimates (called budget estimates) are prepared by each Provincial Government and the Central Government of their probable receipts and requirements of all kinds in Pakistan and abroad during the ensuing financial year (April to March). A full description of the system of budget estimates, and of grants and appropriations and their distribution among controlling and disbursing authorities, will be found in Chapter 16. At this stage all that needs to be explained is that, after the estimated expenditure has been authorised by competent authorities, the grants and appropriations are sub-divided into a number of allotments, the amounts of which are then communicated to the respective controlling and disbursing authorities by Government, which thereby indicates its consent that those authorities should incur expenditure within the limits of the allotments placed at their disposal.

90. Simultaneously with the preparation of the budget estimates for the ensuing year, the budget estimates of the current year are reviewed, and proper authority is obtained for the existing allotments, where necessary, to be increased or reduced, as the case may be.

91. *Ways and Means.*—The consideration of "Ways and Means" aims at arranging that the cash balance of a Government, ~~including in the case of the Central Government that portion of it which is held in England~~ shall at all times during the year be sufficient to meet its requirements. Into these cash balances enter not only the multifarious sums due to and by Government which are generally known as revenue and expenditure, but also the very large amounts borrowed by Government for capital expenditure and also other amounts in regard to which Government acts as a banker or remitter, or borrower or lender, such as deposits of all kinds, money order and loan receipts and issues, advances, remittances, etc., etc., which are grouped in the accounts under the "Debt" and "Remittance" Sections. All amounts falling under these headings enter and leave the treasuries and affect the Government cash balance, and are technically known as Government receipts and disbursements, or incomings and outgoings, as distinguished from Government revenue and expenditure proper. It is with these transactions as a whole that "Ways and Means" deal. A forecast is prepared of the opening balances of the year, and of the monthly incomings and outgoings of all kinds, pertaining to a Government and it is arranged, by adjusting the one to the other, by raising a loan, for example, or reducing the amounts proposed for expenditure, that the estimated Government cash balance as a whole shall never fall unduly low. With the same object a careful watch is maintained throughout the year on the actual progress of transactions.



92. *Resource.* ~~“Resource” is the process of distributing the cash balance of a Government between the different treasuries or paying centres so that each shall at all times have sufficient funds to meet the local demands on it. Some treasuries collect more receipts than they require for their payments, others less; and the surplus treasuries have to feed the deficit treasuries. Generally, “Resource” is carried out by means of remittances between treasuries, either in cash or by bills, and by the establishment of “currency chests” for utilising for remittance purposes the cash balances held against the note circulation, in a manner which is explained in Chapter 7. The payments which the Pakistan Embassies, etc., have to make on behalf of the Central and Provincial Governments far exceed the receipts accruing to those Governments in the respective countries. These authorities have therefore to be placed in funds by remittances from Pakistan which are arranged for by the State Bank.~~ *Hand. Bank.*

93. *Functions of various Authorities.*—In matters connected with classification, audit and accounts, the duties and powers of the Auditor General have already been stated in Chapter 3. The Finance Ministers of the Central and Provincial Governments are responsible for the Budgets. “Ways and Means” arrangements are under the direct control of the Government concerned, while “Resource” is administered by the State Bank of Pakistan in accordance with such arrangements as may be made by it in consultation with the respective Governments.

94. *Comparison with the English system.*—In concluding this chapter it will serve to bring into further relief the distinctive features of the Pakistan system if a brief comparison is instituted between it and the English arrangements.

- (i) The administrative arrangements of a country largely govern its fiscal arrangements. Thus, in Great Britain a highly centralised fiscal system follows a highly centralised form of Government. There is only one public treasury as compared with a number of treasuries and sub-treasuries in each Province in Pakistan. It is not of course to be supposed that the whole of the English public receipts and payments occur exclusively at the Bank of England in London, though the arrangements admit of a large proportion of them so occurring. This Bank is, however, the centre where the public balances and accounts are kept, and from which original issues of public money are made,—in other words, it is the only treasury. The English account and audit and budget arrangements are similarly centralised; “Resource” may be said to be non-existent; and “Ways and Means”, as handled by the Chancellor of the Exchequer, is simplified by being confined to revenue and expenditure proper and by excluding debt and remittance, which are separately controlled.
- (ii) In Pakistan, on the other hand, in place of this concentration and simplicity, we have decentralisation and immense multiplicity and variety, due mainly to the existence of several autonomous Provincial Governments and one Central Government, each having a separate Public Account of its own, and



partly to the geographical position of the country and its large as well as diverse population. To these causes, combined with the slow and late development of private banking, are due the numerous treasuries and sub-treasuries, distributed at wide distances from each other all over the country, where public money is always being received and paid and public accounts are always being prepared and issued to the numerous Provincial and departmental account centres.

- (iii) The number of treasuries again introduces the "Resource" problem or the never-ending task of distributing a cash balance, which varies at different times of the year, over several treasuries in a Province according to their fluctuating requirements.
- (iv) From the same causes, namely, the existence of autonomous Provincial Governments, the geographical position and the population involved, necessitating as they do a large delegation of executive authority, primarily spring the administrative divisions and arrangements which again re-act on and condition the financial arrangements, and give Pakistan its Provincial and departmental as well as Central finance and budget systems, and its various Account and Audit offices.
- (v) Finally, in Pakistan, where Government still performs many functions which elsewhere are undertaken by private enterprise, Government acts largely as a banker and remitter, and holds and pays immense sums which are not Government revenue or expenditure proper and greatly complicate the already large problem of "Ways and Means" or the constant adjustment to each other of the fluctuating volume of incomings and outgoings.



## CHAPTER 7

### Currency and Resource Arrangements.

**95. Introductory.**—In paragraph 92 a brief reference has been made to the Currency and Resource arrangements in Pakistan. This chapter is intended to deal in outline with the broad principles and general arrangements concerning these subjects.

**96. Currency.**—The Currency of Pakistan consists of coins, of which the coinage and issue are authorised under the Pakistan Coinage Act, as amended from time to time, by the Government of Pakistan, of currency notes issued by the Government of Pakistan and of bank notes issued by the State Bank of Pakistan. Under the provisions of the State Bank of Pakistan Order, 1948, the sole right to issue bank notes in Pakistan has been vested in the State Bank with effect from the 1st July 1948.

**97.** The coins issued under the Pakistan Coinage Act are of the following kinds :—

*Pure Nickel.*—Rupee, half-rupee, and quarter-rupee.

*Cupro Nickel.*—Two-anna piece, one-anna piece, and half-anna pieces

*Bronze.*—Single pice or quarter anna.

The rupee is legal tender up to any amount ; and the Half Rupee for any sum not exceeding Rs. 10 and the Quarter Rupee for any sum not exceeding one Rupee, provided they are not so worn or defaced as to lose traces of Government Mintage. Two Anna, One Anna, Half Anna and Bronze Coins are legal tender for a sum not exceeding one rupee.

**98. Deleted.**

**99.** Bank notes issued by the State Bank of Pakistan are of the denominational values of two rupees, five rupees, ten rupees and one hundred rupees, and are legal tender throughout Pakistan. One rupee notes issued by the Central Government are also unlimited legal tender.

**100.** The form of currency which is demanded by the public has to be supplied ; but, in view of the waste involved in the use of silver coin as currency, the use of notes was encouraged as far as possible. Until the time of the Great War, the silver rupee was the main medium of exchange in undivided India and the circulation of currency notes outside large towns was comparatively small. During the War, however, when there was a shortage of silver rupees, the use of currency notes, especially those of small denominations (including Re. 1 and Rs. 2-8-0 notes which were issued for some time during and after the War), was encouraged in every possible way, and the use of notes has now been substituted for that of silver rupees as the common medium of exchange.

**101.** No person has a legal claim to receive cash for notes presented at a Government treasury ; but, in order to encourage the use of notes, Government have issued orders that notes should be cashed freely at any Government treasury whenever possible. Treasury Officers and branches and agencies of the Bank are required to see that a sufficient stock of rupees is kept with them to provide for exchanging notes presented by the public.



102. *Resource.*—The control of the Resource operations of the Central and Provincial Governments vests in the State Bank of Pakistan. This work is conducted under the control of the Bank by a number of Currency Officers each of whom is in charge of an Issue Department of the Bank and is responsible for the work of one or more Provinces within his jurisdiction.

103. The cash balance of each Government is made up of the balance in its account with the State Bank of Pakistan and the balances at its treasuries and sub-treasuries situated at places where the cash business is not conducted by the State Bank of Pakistan and its branches and agencies. At places where the cash business is conducted by the Bank, Government receipts are paid into and all Government disbursements are made from the Bank, and the Bank is responsible for the distribution and maintenance of funds according to requirements at these places. This is arranged by Currency offices. Each Government is responsible for keeping in its account at the State Bank of Pakistan a sum sufficient to enable the Bank to meet the disbursements which the Bank has to make on its account at its various branches and agencies. At treasuries and sub-treasuries situated at places where there is no branch or agency of the Bank, Government holds the Treasury Officer responsible for keeping sufficient funds to meet all Government disbursements and for maintaining the balances as low as possible in order that money may not be locked up unnecessarily. The transfer of funds between such treasuries and sub-treasuries and the offices, branches and agencies of the Bank in such a way as to keep the balances in the Government account with the Bank, and at each treasury and sub-treasury, sufficient to meet all Government payments without unnecessarily locking up funds is an important part of the resource work in Pakistan.

104. *Funds in Pakistan.*—The Currency Officers are responsible for the distribution of funds within their jurisdiction. It is the duty of the Currency Officers to keep all the treasuries in their jurisdiction adequately supplied with all kinds of coin and notes and to arrange for the transfer of funds between treasuries and between treasuries and the Bank and for the remittance of notes and coin between treasuries and Currency offices.

105. The transfer of funds between treasuries and sub-treasuries and branches and agencies of the State Bank of Pakistan is effected for the most part through the medium of currency chests. These chests are maintained at treasuries and sub-treasuries to prevent the unnecessary locking up of funds in treasury balances and to facilitate the transfer of funds from and to such balances. Under the provisions of the State Bank of Pakistan Act, the amount of currency and bank notes in circulation which constitute the liabilities of the Issue Department of the Bank, should not exceed the assets of that department held in gold, sterling securities, rupee coin and rupee securities. A portion of these assets is held in the various currency chests in the form of rupee coin. The notes held in these chests are treated as not "in circulation" and they pass into circulation only when they are transferred to the treasury balances. Assuming that there are no transactions elsewhere, the deposit of notes in a currency chest decreases the amount of notes in circulation and the deposit of rupees in the chest increases the assets of the Issue Department of the Bank. A



deposit of notes or coin in a currency chest thus enables the Bank to issue notes elsewhere up to the amount deposited without increasing the total amount of the notes in circulation. I, therefore, a transfer of funds from the treasury balance at A to the treasury balance at B is required, this can be effected at short notice and without the actual remittance of coin or notes by transfer of money from the treasury balance to the currency chest at A and transfer of the same amount from the currency chest to the treasury balance at B. A currency chest thus enables the treasury balance at a treasury or sub-treasury to be kept at a low figure as it is always possible to replenish the balance quickly by a transfer of money from the currency chest. It also obviates the necessity for frequent remittances of coin and notes, as surplus funds can always be deposited into the currency chest and made available for use elsewhere pending a convenient occasion for remittance. The stock of notes and coin kept in currency chests varies according to the needs of the respective districts. Remittances are made periodically from currency chests to Currency offices and *vice versa* in order that the stocks may be maintained at the necessary figure.

**106.** The State Bank of Pakistan provides facilities to the public for the transfer of money between places where offices of the Bank exist. Under the agreement between the State Bank and the National Bank of Pakistan, the latter has agreed to give the public every facility for the transfer of money at rates not exceeding such rates as the State Bank may by special or general direction approve. In order to provide similar facilities for the transfer of money from and to places where there is no office of the State Bank or branch of the National Bank of Pakistan and to discourage the remittance of notes through the post by the public, Currency Transfers are issued by Government treasuries under arrangements agreed upon between the Government and the State Bank.

**107. Funds in England.**—The Central Government have for the present agreed that transactions on account of Provincial Governments taking place in the United Kingdom may be taken initially against the Central balance pending recovery in Pakistan from the Governments concerned. The provision of funds in London to meet the large payments which the High Commissioner for Pakistan has to make on behalf of the Governments in Pakistan is an important part of the *Ways and Means* operations of the Central Government. Remittances for such purposes from Pakistan to England are arranged for by the State Bank of Pakistan on the basis of advices received from High Commissioner for Pakistan in England.



## CHAPTER 8

## The Working of a Treasury

**108. Introductory.**—The Central Government and each Provincial Government have now framed their own rules to regulate the working of treasuries under their control. The procedure as described in this chapter will, however, give an idea how the treasury business is generally conducted.

**109. Personnel.**—At places where the cash business of the treasury is not conducted by the State Bank of Pakistan or its branches and agencies the personnel of a district treasury consists of—

- (1) the Collector or Deputy Commissioner of the district ;
- (2) the Treasury Officer, generally a Deputy Collector ;
- (3) the Treasurer ; and
- (4) the Accountant.

There are also clerks, money testers, messengers, etc.

**110.** The Collector is in general charge of the treasury and is personally responsible for its general administration, for the correctness of its returns and the punctuality of their submission, and for the safe custody of the valuables it contains ; but he takes no part in the daily routine of treasury business.

The Treasury Officer is (under the Collector) in immediate executive charge of the treasury.

**111.** Under these two officers the treasury is divided into two departments, that of cash, stamps and opium under the charge of a Treasurer, who always has to give security, and that of accounts in charge of the Accountant.

**112. Building.**—The treasury building contains a counter at which money is received and paid, and a strong room, guarded by an armed police guard, in which the valuables are secured under double locks, one key being held by the Treasury Officer as the Collector's representative and the other by the Treasurer.

**113. Opening of the Treasury.**—The procedure of opening the treasury for the day is usually as follows :—

Both the Treasury Officer and the Treasurer being present the locks and seals of the gates of the strong room are made over intact by the guard and the room is opened, each official using his own key, and sufficient cash and notes to meet the probable demands of the day are taken out, made over to the Treasurer, and entered in his accounts. The strong room is then again double locked. Issues from the strong room to meet further demands during the day are similarly made. Stamps and opium are issued to the Treasurer from the double lock as required, subject to the general rule that the value of cash, notes, stamps and opium in the hands of the Treasurer at any time shall not exceed his security.

**114. Receipts.**—The receipt and issue of money then begin. When any one has occasion to pay money into a treasury he first procures a printed form called "chalan", which is usually bi-lingual and in



duplicate, one copy to serve eventually as a receipt and the other for record in the treasury. In the *chalan* he enters the nature of the payment as well as the person or officer on whose account it is made, and has the entries checked, passed and recorded by the revenue department concerned. He then takes the *chalan* to the Accountant, who, if it is in order, initials it and directs the presenter to take it with the money to the Treasurer, who, seeing the Accountant's initials, tests and counts the money, enters the transaction in his account, and signs both copies of the *chalan* in token that he has received the money. The presenter then takes the *chalan* back to the Accountant, who, on the strength of the Treasurer's signature, enters the transactions in his accounts, and completes his signature on one copy of the *chalan* which then forms a full acquittance. Generally in the case of sums of Rs. 500 and upwards the Treasury Officer also signs the receipt.

When opium, stamps, etc., are sold, the total sales are entered by the Treasurer in his cash book before it is closed for the day and a memorandum is prepared and forwarded to the Accountant so that the necessary entry may be made in his accounts.

115. *Payments.*—Similarly, all payments are made by the Treasurer after examination by the Accountant, but only upon an order to pay signed by the Treasury Officer himself.

When a bill, giving full details as to the amount, nature, and period of the payment, and all other particulars necessary for its complete identification, is presented for payment, it is received and examined by the Accountant, who enters it in his accounts and lays it before the Treasury Officer, who, if it is in order, signs on it an order for payment. It is then passed on, together with the payee, to the Treasurer's department, and the Treasurer makes the payment and enters it in his accounts. The bill which then becomes a voucher is stamped "paid" and retained by the Treasurer for delivery to the Accountant's department at the end of the day, when the books are compared in the manner explained in paragraph 119 below. Before payment, the bill has to be receipted by the payee.

116. When a payment has been made by cheque drawn on the treasury, similar formalities are observed in cashing it. The Accountant examines its validity and the Treasury Officer verifies it and, if he finds it to be in order, signs on it an order for payment, on the authority of which the Treasurer makes the payment and enters it in his account. The paid cheque, which then becomes a voucher, is handled in the same way as other vouchers.

117. *Treasurer's and Accountant's Books.*—The Treasurer's account consists of a cash book (without subsidiary registers) in which each transaction of receipt and payment is posted as it occurs; but the Accountant has, in addition to a cash book, subsidiary registers for receipts and payments of frequent occurrence, or of a special nature, or belonging to departments for which separate returns are prepared, and only the daily totals of these registers pass into his cash book. In a Provincial treasury the cash book and subsidiary registers for Provincial transactions are kept separate from those for Central transactions.

118. *Incorporation of Sub-treasury Accounts.*—Receipts and payments continue throughout the day according to this method. At the same time, a daily sheet (supported by vouchers) is received in the



district treasury from each of its sub-treasuries reporting the receipts, payments and balance of the day before (in some cases the second or third day before, according to the distance by post), any transactions of the Central Government taking place at a Provincial sub-treasury being reported in a separate daily sheet. After examination the daily sheets from sub-treasuries are posted into the Accountant's books at the district treasury but not into the Treasurer's account.

✓ 119. *Daily Closing.*—The process of closing a Provincial treasury for the day is as follows :—

- (i) The Accountant transfers the totals of his subsidiary registers into the cash book for Central or Provincial transactions, as the case may be, sums and closes the latter, and prepares a balance sheet in a prescribed form in the Provincial cash book. The totals of receipts and disbursements in cash as worked out in the cash book for Central transactions are posted in lump in the cash book of Provincial receipts and disbursements.
- (ii) The Treasury Officer checks both registers and cash books, comparing each payment entry with its voucher and the register totals with those entered in the cash books, and verifies a certain number of the totals, the rest being checked by a clerk other than the Accountant. The cash book totals are also checked by a senior subordinate other than the Accountant.
- (iii) Meanwhile the Treasurer sums both sides of his cash book and draws up a balance memorandum which gives details in kind of the notes, coin, etc., composing the balances in his hands.

If the results in the two balance sheets agree, the Treasury Officer signs both cash books and both balance sheets and the accounts for the day are closed.

NOTE 1.—The Accountant's balance includes the balances of the sub-treasuries (paragraph 118 and also remittances in transit between treasuries in the district, which have to be deducted before agreement can be effected with the Treasurers balance.

NOTE 2.—The cash Book for Central transactions will invariably close with a *nil* balance as the difference between total receipts and total disbursements will be adjusted under the appropriate head concerned.

- (iv) The Treasury Officer then verifies the cash, etc., in the hands of the Treasurer as shown in his balance memorandum, and, together with the Treasurer, locks it up under double locks in the strong room which is then left for the night in charge of the guard.

The procedure described above is followed *mutatis mutandis* in a Central treasury also.

120. *Receipt, issue and safe custody of Treasure.*—The actual process of dealing with the valuables in a treasury, which include gold, silver, nickel, bronze, copper, stamps and opium, is as follows :

- (i) Payments into and from the treasury are made in nickel, cupro-nickel and bronze coin, and in notes. Gold mohurs, sovereigns and half-sovereigns are received in treasuries in certain circumstances, but they are not issued as currency. Stamps and opium are also kept in stock and issued as required.



- (ii) All coin, besides being counted, is tested in detail before receipt for verification that it is genuine, current, and up to weight according to certain rules laid down.
- (iii) Notes are similarly examined for verification that they are genuine and not mis-matched or altered, etc.
- (iv) Coin intended for reception into the strong room is made up into bags of uniform contents (Rs. 100, Rs. 500, Rs. 1,000 or Rs. 2,000, according to convenience of use), and before deposit the contents of each bag are poured into scales, weighed, and tied up again in bags, in the presence of both the Treasury Officer and the Treasurer.
- (v) Notes are made up in bundles of not more than 100 notes each according to denominations and counted both by the Treasury Officer and by the Treasurer.
- (vi) In the strong room itself the bags of coin are placed in iron boxes or safes or wooden chests, or occasionally in built recesses or wells, each receptacle being under double locks like the strong room itself. Coin which has been longest in the treasury is given out first, two boxes or other receptacle being, for this purpose, brought into use simultaneously, one in which all receipts are placed, and the other from which money required is given out.
- (vii) The bundles of notes are similarly kept in suitable boxes, in order of receipt so that those longest in stock may be issued first, and stamps and opium are dealt with in the same way, all the separate boxes being under double locks.
- (viii) Most treasury strong rooms also contain currency chests referred to in paragraph 105. These chests also are under double locks.

✓ 121. *Monthly Balance.*—The working of the treasury proceeds in this way from day to day, and the monthly process is completed by the cash (coin and notes) present in the district treasury on the last day of the month being verified by the Collector himself or, if he is absent from Headquarters or is otherwise unable to perform the duty, by a responsible assistant, the cash in each sub-treasury being similarly verified by the local officer in charge. An actual cash balance report for the whole district is then drawn up with which the account balance is compared.

✓ 122. *Monthly Accounts.*—The point has now been reached for the despatch of the monthly returns to the Account office. In the case of Provincial treasuries, the returns are submitted to the Account Officer of the Province, and in the case of Central treasuries the monthly accounts are rendered to the Accountant General who has been nominated for the purpose by the Auditor General.

123. These monthly returns, which in the case of Provincial treasuries are separate for transactions of the Provincial Government and for those of the Central Government, consist of (i) schedules of payments in two parts, the first part relating to the payments made from the 1st to the 10th of the month and the second part to those made during the rest of the month; (ii) schedules of receipts; (iii) a List of Payments; and (iv) a Cash Account. These are written up daily in the



treasury from the Accountant's cash book and the registers subsidiary thereto, and the vouchers are day by day numbered, arranged, and, put away under lock and key.

124. There are separate schedules for each department or for each class of transactions not relating to any particular department, and in them the transactions are entered in sufficient detail to enable the preliminary compilation in the Account office to be made therefrom and the vouchers to be identified according to the classification given in them. The List of Payments and the Cash Account show respectively the total payments made, and the total receipts collected, during the month, detailed according to each schedule, or, in respect of the Debt and Remittance transactions, according to broad account classification. The Cash Account (and in the case of a Provincial treasury, the Provincial Cash Account) also works up to the actual cash balance in the treasury on the last day of the month, as personally counted by the Collector, after bringing into it the total payments as shown in the List of Payments.

125. The first batch of payment schedules, supported by the necessary vouchers, is sent to the Account office on the 10th or 11th of the month; and the remaining schedules, supported by the necessary vouchers, the List of Payments, and the Cash Account, which is accompanied by a certificate of agreement of the account balance with the balance reported in the cash balance report of the treasury for the last day of the month, are sent on the first day of the succeeding month.

NOTE:—The procedure described above differs in certain details in respect of treasuries situated in central areas.

126. The schedules, List of Payments and Cash Account described above, as sent from each treasury monthly to the Account Officer, represent the first stage of compilation of the public accounts. They cover conjointly the whole of the public transactions including departmental accounts and debt and remittance transactions. They may be said to constitute the primary fabric of the public accounts in Pakistan.

127. *Daily and Monthly Agreement.*—It will be noticed generally that the correctness of the daily accounts of a self-contained treasury is secured by making two independent officials (the Accountant and the Treasurer) separately deal with and record each item of receipt and payment as it occurs, and by effecting an agreement at the end of the day between the two sets of accounts thus prepared, and at the same time verifying the actual cash balance in the hands of the Treasurer. This daily check is reinforced by the actual count of the whole of the cash balance in the treasury on the last day of each month by the Collector himself.

128. Similarly, the safe custody of the treasure is secured by placing it conjointly in the hands of two independent officials, the Treasury Officer, and the Treasurer (one of whom, the Treasurer, gives substantial security), under the system of double locks.

129. *Transactions at the Bank.*—The following organisations of the State Bank are directly concerned with the cash transactions of the Central and Provincial Governments:—

(1) Offices and branches of the State Bank.

(2) Branches of the National Bank of Pakistan serving as agents of the State Bank.



Each office and branch of the State Bank maintains two separate accounts of cash transactions undertaken by it on behalf of Governments, one for transactions of the Central Government and another for transactions of the Province in which the office or branch is situated, including transactions relating to other Provinces. Separate statements of transactions in their Central and Provincial Government accounts together with all supporting vouchers, etc., are transmitted by each office and branch daily to the Treasury Officer. At the close of each month, the balances of the two accounts are transferred to the Central Accounts Section of the State Bank at Karachi.

Each branch of the National Bank of Pakistan transacting Government business as agent of the State Bank classifies the daily receipts and disbursements on behalf of Government in two groups, Central and Provincial, the latter embracing transactions not only on behalf of the Province in which the branch is situated but also on behalf of other Provinces. Separate statements of transactions of the Central Government and of those of the Province are forwarded daily by each branch with supporting vouchers to the local Treasury Officer.

130. The actual procedure whereby Government authorises the Bank to accept receipts or to make payments varies according to circumstances. Thus, at places where Account offices are located and there is no treasury, the Account Officer alone issues the necessary authority. At headquarters stations of Provincial Governments where there are both Account offices and treasuries, in some cases the Account Officer issues the necessary orders and in others the Collector.\* There are also branches or agencies of the Bank at many stations where there are treasuries but no Account offices. At such stations the necessary orders are issued by the Collector. Wherever an Account office intervenes, all payments exceeding Rs. 20 are, unless there is a special request for cash payment, made by cheques drawn on the Bank.

131. It is unnecessary to detail the classes of receipts and expenditure which can be accepted or paid by the Bank without authority, or on the authority of the Account Officer or the Collector. It may be said generally that the Bank deals direct with the receipts and expenditure of those departments which draw money by presenting cheques or simple receipts without specifying the nature of the payment while in other cases it requires the authority either of the Account Officer or of the Collector in respect of both receipts and payments.

132. It will be understood, therefore, that where the treasury business is conducted by the Bank it performs practically the whole of the cash duties which, in a self-contained treasury are conducted by the Treasurer. The daily reconciliation is, in consequence, effected between the treasury Accountant's books and the Bank's daily returns, instead of between the Accountant's and the Treasurer's books.

133. *Check at the Treasury.*—In paragraph 115 it is stated that the Treasury Officer passes a payment order in writing on each bill presented for payment at the treasury, *provided it is in order.* The words in Italics connote the check applied at the treasury to all bills before they are paid. The Treasury Officer has to satisfy not only

\*NOTE.—The term "Collector" as used in this and the next paragraph includes the officer in charge of the treasury, by whatever designation he may be called.



himself but also the Account Officer that the claim is valid, and has further to prove that the payee has actually received the sum charged. He has, therefore, to see that the claim is covered by general or special orders, that the voucher is in the proper form and properly drawn up, that it is signed (and if necessary countersigned) by the proper officer, that it is stamped if necessary, that the arithmetical calculations are correct, that the amount claimed is entered in words as well as figures, that there are no erasures and that all corrections and alterations are attested by the drawing officer. This general check is applied to all vouchers before they are paid at a treasury.

134. The most important features of this check are that it is applied *before* payment, and that it secures that no claims not generally and *prima facie* admissible shall be paid at a treasury; and that all bills shall be drawn and receipted by the responsible officers, and shall be in the proper forms and arithmetically correct. While this check is an indispensable element of the general arrangements in Pakistan for preventing irregular payments from the public funds, it must not be confounded with the audit scrutiny conducted by the Pakistan Audit Department, which is generally audit *after* payment, that is, *post audit*, and includes a re-application of the checks applied at the treasury as well as a detailed examination of every item of expenditure with the sanctions, orders, and codes of the different departments.

135. *Classification in the Treasury Accounts.*—As has already been stated in paragraph 80, the bills and vouchers before presentation at the treasury are required to be enfaced by the department concerned with the proper account classification; and from these enfacements the transactions are broadly classified in the schedules in the case of revenue receipts and service payments, and in the List of Payments and the Cash Account in the case of Debt and Remittance transactions. For this purpose these documents have the broad account classification printed on them, and in the majority of cases the totals of the monthly receipts and payments are entered against these printed heads from the subsidiary registers maintained at the treasury. But a few items occur every month which do not clearly fall under any of the printed heads, or in respect of which the full account classification is wanting, and these the treasury describes in detail in the body of the schedule or the Cash Account or the List of Payments and leaves to the Account office to classify. The Account office does this and also checks the classification already made by the departmental officers in the bills and vouchers and by the Treasury Officer in the accounts submitted by him.

136. *Treasury Inspection.*—In most Provinces each treasury is inspected periodically by a gazetted officer deputed by the Accountant General/Comptroller. The Inspection Report is sent to the Collector in two parts, one relating to Currency, Resource and Public Debt matters which are administered by the State Bank and the other dealing with all other points. The Accountant General/Comptroller also sends a copy of the first part of the Report to the Currency Officer in whose jurisdiction the treasury is situated. The Collector reports the action taken by him on the Report to the Accountant General/Comptroller and sends a copy of the orders on the first part to the Currency Officer who informs the Accountant General/Comptroller whether the action



taken on that part is adequate or whether any further action is required. The Accountant General/Comptroller brings to the notice of the Commissioner of the Division all matters in which he thinks that the action taken by the Collector is inadequate or which he considers should receive the attention of the Commissioner. The Accountant General/Comptroller reports to the Provincial Government all important points or irregularities which are not settled by references to the Commissioner. Any point of importance affecting the Central Government is also brought to the notice of that Government.

**137.** In matters of accounts and check at the treasury the Collector, with the Treasury Officer under him, is responsible to the Account Officer, whose instructions he is bound to carry out. The Account Officer does not, however, ordinarily interfere with the Collector's responsibility for the practical working of the treasury further than by constant correspondence with him for the removal of irregularities detected in the accounts and returns submitted. The Currency Officer concerned controls the "Resource" of the treasury, that is to say, he keeps it supplied with sufficient coins and notes, and, when necessary, removes surplus funds elsewhere. In all matters relating to Resource, the Collector is bound to carry out the instructions of the Currency Officer.



## CHAPTER 9

**Procedure of Departments whose Initial Accounts are compiled, in whole or in part, departmentally instead of at the Treasury.**

### A.—GENERAL.

**138.** *Receipts credited in lump, and Payments made by cheques.*—We have now arrived at the point where a treasury has compiled the month's transactions and has despatched the month's accounts to the Account Officer. These treasury accounts are copies of the initial accounts, and on them are based the subsequent compilation in the Account office. It is obvious, however, that unless these accounts contain sufficient details of the classification of the items by which the transactions enter into the general account, the compilation of these in the Account office will not be possible. Such information can be furnished by the treasury in respect of those transactions only for which details are given in the *chalans* which accompany the money for payment into the treasury or in the bill on which money is drawn from the treasury. But, as has been stated in paragraph 78, the receipts of some departments are paid into the treasury in lump and the payments for them are made by cheques, and the treasury is therefore not aware of the details of these transactions.

**139.** In respect of receipts of most of the civil departments, and of receipts under the Debt and Remittance heads, as well as all corresponding payments, the detailed information is available at the treasury. Similarly, in respect of rents on accounts of Public Works Department buildings received by deduction from bills cashed at treasuries and payments made on bills drawn by officers of the Public Works and Forest Departments and the Salt Branch of the Department of Central Excises and Salt, the detailed information is made available to the treasury. In the accounts furnished by the treasury, these transactions are therefore entered in broadly classified detail, supported by vouchers which furnish such further information as is necessary for the compilation. But in respect of receipts and payments of the Defence, Railway and Posts and Telegraphs Departments, and of transactions other than those detailed above of the Public Works and Forest Departments and the Salt Branch of the Department of Central Excises and Salt, as also of certain other departments, details are not made available to the treasury, and those transactions therefore appear in the treasury account in lump only, by departments, without any detail. In the case of these departments the maintenance of separate initial and subsidiary accounts is therefore required. These initial and subsidiary accounts are prepared by the department concerned, and copies of them are rendered to the respective Account Officers in the same way as is done by the treasury. The present chapter describes the relations of these departments with the treasury and also the arrangements in each for the preparation of the initial accounts.



## B.—PUBLIC WORKS DEPARTMENT.

### (a) CONSTITUTION OF THE DEPARTMENT.

**140. Organization.**—For purposes of Public Works Administration each Province is divided into circles which are in charge of Superintending Engineers. Each circle is divided into divisions which are again sub-divided into sub-divisions. The divisions are in charge of Executive Engineers, and the sub-divisions are in charge of Assistant Executive Engineers or Upper Subordinates who are called Sub-divisional Officers. The Executive Engineers and Sub-divisional Officers are also called Divisional and District Engineers in some Provinces.

The department as a whole is again generally divided into two branches,—Buildings and Roads, and Irrigation,—each branch in a Province being generally in charge of a Chief Engineer who controls the Superintending Engineers.

### (b) RELATIONS WITH THE TREASURY.

**141. Payments.**—Disbursing officers of the Public Works Department obtain from the treasury in two ways the cash which they require for disbursement,—either directly by bills drawn on the treasury or by means of cheques.

**142.** For the payment of pay and allowances of Government servants, bills are drawn on treasuries. In some Provinces the funds to meet contingent charges are also obtained in the same manner. Such payments are brought to account in the treasury accounts in the same manner as similar payments for other civil departments, and do not enter the Public Works accounts which the Divisional Officers submit to the Account Officer.

**143.** All other disbursements are made by Divisional Officers by cheques drawn on treasuries with which they are placed in account by the Account Officer. A Divisional Officer may also empower his Sub-divisional Officers to draw cheques against his own account with a treasury. He keeps a Pass Book in which each cheque paid by the treasury is recorded by the Treasury Officer. The Pass Book is sent periodically to the treasury for completion. At the end of each month, the Treasury Officer furnishes a certificate to the Divisional Officer showing the total amount of cheques paid during the month against his account. The Divisional Officer checks the certificate and the Pass Book with his accounts, makes out a list of cheques drawn but not cashed at the treasury, and then submits the certificate with a list of uncashed cheques to the Account Officer in support of his accounts. The paid cheques are also sent to the Account Officer, twice a month, by the Treasury Officer, in support of the lump debits in the Lists of Payments.

**144. Receipts.**—Receipts realized by the officers of the department are remitted as soon as possible in lump into the treasury. With each remittance a Remittance Book accompanied by the usual *chalan* is sent to the treasury and the treasury acknowledgment is recorded in



this book. At the end of each month, the Treasury Officer furnishes the Divisional Officer with a consolidated receipt for all remittances of the entire division during that month. The Divisional Officer submits this receipt to the Account Officer along with his accounts.

### (c) PREPARATION OF INITIAL ACCOUNTS.

**145. Divisional and Sub-divisional Offices.**—The Public Works accounts unit is the "division" and, it includes one or more sub-divisions. To each divisional office is attached an Accountant, who is a subordinate of the Account Officer but is posted to the divisional office to check and compile the divisional accounts under the supervision and responsibility of the Divisional Officer.

#### (i) Sub-divisional Accounts.

**146. Funds.**—A Sub-divisional Officer is placed in funds in one of three ways :—

- (a) by a fixed imprest or permanent advance which he can have recouped on depletion ;
- (b) by transfers of cash from the divisional chest ;
- (c) by a drawing account against the Divisional Officer's account with a treasury.

**147.** He generally has a cash chest in which he places any departmental revenue received by him pending its remittance to the treasury, and also, if he has a drawing account with the treasury, all sums drawn on cheques which he is unable to disburse at once to the payees. If he is financed by a fixed imprest or an advance from the Divisional Officer's chest, he keeps the balance of the imprest or advance in his cash chest. Payments are made only on properly prepared bills, in cash from the chest in the case of imprests or advances, or by cheques where there is a drawing account. Cheques are drawn by the Sub-divisional Officer usually in favour of the actual payees (contractors, etc.), but sometimes in favour of himself to replenish his chest when he has small payments to make.

**148. Account Records.**—A Sub-divisional Officer's principal account records are—

- Cash Book ;
- Muster Roll ;
- Measurement Book ;
- Works Abstract ;
- Registers of Receipts and Issues of Stock.

**149. Cash Book.**—The Cash Book is the most important primary account record. On it the whole accounts of the sub-division are based and all other accounts and returns are subsidiary to it. All receipts and payments are posted into it daily. The Sub-divisional Officer regularly examines and initials it and is personally responsible for its



correctness. It is balanced at the end of the month and signed by the Sub-divisional Officer, who at the same time personally counts and certifies the cash balance.

**150. Muster Roll.**—The Muster Roll, as its name denotes, is a nominal roll or list of labourers employed daily on works. There is generally a separate roll for each work. Payments on muster rolls are made and witnessed by the executive officer of the highest standing available on the spot, who actually counts the labourers, has the payments made in his presence and attests the roll.

**151. Measurement Book.**—The Measurement Book is an initial account of the greatest importance in the Public Works Department. It is the basis of all accounts of quantities (and qualities), whether of work done by daily labour or by the piece or contract, or of materials received. From the Measurement Book or record of quantities (and qualities) made on the spot by personal measurement by the responsible executive officer, all bills for work (buildings and roads, bridges, canals etc.), are prepared.

**152. Works Abstract.**—The Works Abstract records in detail the cash, stock and other charges on each work whether carried out by departmental agency or contract. In the case of major works, and in other specified cases where specially required by the competent authority, it shows also the progress of the quantities of work done. For manufacture operations, a Works Abstract is required for each operation, and in addition an account is kept of the quantities and values of the products of manufacture.

**153. Stores Accounts.**—The Sub-divisional Officers keep simple registers showing the quantities of stock received and issued each day. At the end of the month accounts are prepared showing the total quantity received and issued under each sub-head of stock account during the whole month. In these accounts the receipts are also classified according to the sources from which the stores are received and the issues according to the works to which they are issued.

**154. Monthly Sub-divisional Accounts.**—The Monthly Sub-divisional accounts are prepared and sent to the divisional office as follows :—

The Cash Book and initial accounts of stores for a month are closed on the 25th or an earlier date prescribed by the Account Officer. On closing the Cash Book the Sub-divisional Officer counts the cash in his chest and submits a Cash Balance Report to the divisional office. Copies of the Cash Book, supported by vouchers, are sent to the divisional office twice a month or oftener as directed by the Divisional Officer, the copy relating to the last period of an account month being submitted with the Cash Balance Report. Within 3 days of the closing of the account of the month the Sub-divisional Officer also submits the Works Abstracts and the month's accounts of stock, etc. He does not, however, consolidate the transactions into a compiled monthly account, this work being done in the divisional office for the entire division.



155. If the Sub-divisional Officer is financed by an imprest, the Divisional Officer embodies the sub-divisional Cash Book in his own Cash Book, if, however, the Sub-divisional Officer has a drawing account on the treasury, or if cash is transferred to him from the divisional cash chest, his Cash Book is not embodied in the divisional Cash Book but the transactions are consolidated direct into the monthly accounts of the division.

(ii) *Divisional Accounts.*

156. *Account Records.*—As in the case of the Sub-divisional Officer, a Divisional Officer has a cash chest, a Cash Book, Measurement Books and also Muster Rolls for works which are directly under his charge and Works Abstracts, and he uses them in the same way. The fore-going remarks under these heads apply equally to him. He has also store accounts, and in some cases manufacture and workshop accounts. He receives revenue and, in the same way as the Sub-divisional Officer does, makes payments for works, etc., on properly drawn bills, by cheques or, if the bills are for small amounts, in cash from his chest.

157. The main accounts which he keeps in addition to those kept in the sub-division are—

Contractors' Ledger ;

Register of Works ;

Transfer Entry Book.

158. *Contractors' Ledger.*—The Contractors' Ledger is a running account with each contractor, showing the amounts due *by* him for advances made to him, and *to* him for work done by him, and is closed and balanced monthly.

159. *Register of Works.*—The Register of Works contains a record of every important original work or repair showing the expenditure month by month compared with the estimate. In the case of major works, or in other cases where specially required by the competent authority, the expenditure is recorded by sub-heads of works, by which is meant items of work such as brick work, doors and windows, etc., which are specified in the sanctioned estimate. The object of such a record is to show the Divisional Officer the rates at which these different kinds of work are carried out and to enable him to obtain the necessary sanction.

160. *Transfer Entry Book.*—The Transfer Entry Book contains a record of all transfer entries included in the accounts of the division, as for example, work done or payments made by other divisions, departments or Governments, write-back of an erroneous debit or credit, etc. The book is posted as soon as the transactions become known from advices of debit, transfer entry orders, etc. In this book is also entered the credit on account of cheques drawn during the month.

161. *Revenue Accounts.*—The main account records of revenue comprise the Registers of Revenue Realised and of Refunds of Revenue, in which all cash receipts or refunds, as the case may be, are entered under the different minor heads prescribed for the purpose.



**162. Monthly Divisional Accounts.**—The cash and stock accounts of the divisional office for a month are closed on the last working day of the month. On closing the Cash Book, the Divisional Officer counts the cash in his chest and prepares a Cash Balance Report. The Cash Balance Reports for the entire division enable the Divisional Officer to certify the correctness of the cash balance of the division as given in his Monthly Account submitted to the Account Officer. The Transfer Entry Book is also closed as soon as possible after the expiry of the month. The cash, stock and transfer entry transactions of the entire division are then posted in the relevant schedule dockets, registers and schedules which are abstracted in the Monthly Account submitted each month to the Account Officer between the 7th and 10th of the month following that to which it relates.

**163.** This account is accompanied by schedules (supported by vouchers) the more important of which are :—

- (1) Stock Account prepared from the Sub-divisional Officers' accounts of quantities of stock received and issued during the month after their valuation in the divisional office, and
- (2) Schedules of Works Expenditure which are prepared from the sub-divisional Works Abstracts completed in the divisional office as regards stock and transfer entry transactions.

#### C.—DEFENCE DEPARTMENT.

##### (a) *Relations with the Treasury.*

**164. Cash Collections and Funds.**—Military receipts paid into a treasury have to be accompanied by an order for receipt signed by one of the responsible officers of the Department whose names are on an approved list. Funds are placed at the disposal of Military disbursing officers (other than Defence Accounts Officers) by annual assignment estimates in their favour issued to Treasury Officers by the Defence Accounts Officers. The probable requirements of each month are specified in these assignments, and it is an essential feature of the arrangement that the payments at any stage shall not exceed the proportionate provision to date made in the assignment. Drawings against the assignments are made by cheques which, as usual, are sent by the treasury to the Account Officer in support of the lump debits in the treasury List of Payments. In case of emergent need, funds outside the annual assignments can also be obtained under special arrangements. Defence Accounts Officers are not placed in funds by assignments but are authorised to draw cheques on any treasury or sub-treasury in Pakistan.

##### (b) *Preparation of Initial Accounts.*

**165. Organization.**—The accounts, internal check and disbursements of the undermentioned areas are under an 'Accounts Officer' called a 'Controller of Military Accounts'. The actual organization is as follows :—(But see para. 166 below)

#### *Accts. Hd. Qrs.*

#### *Areas for which responsible.*

1. C. M. A., Rawalpindi ..

(i) Peshawar Area.

(ii) Waziristan Area.

(iii) Rawalpindi Area.



*Accts. Hd. Qrs.**Areas for which responsible.*

- |                            |                                                                                                                                                                                                                                                                                                |
|----------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2. C. M. A., Lahore ..     | (i) Lahore Area.                                                                                                                                                                                                                                                                               |
| 3. C. M. A., Bahawalpur .. | (i) Bahawalpur State Forces units except State Body-guard units and State Border Constabulary Force, but including audit and payment of pay and allowances to Officers, J.C.Os. (Junior Commissioned Officers) and O. Rs. (Other Ranks) of the units and formation of Bahawalpur State Forces. |
| 4. C. M. A., Karachi ..    | (i) Sind Area.<br>(ii) Baluchistan Area.                                                                                                                                                                                                                                                       |
| 5. C. M. A., Dacca ..      | (i) All units/formations in East Pakistan.                                                                                                                                                                                                                                                     |

166. Each Controller acts as the Financial Adviser to the Commander in his audit area. These Controllers also assist the Divisional Commanders and Independent Brigade Commanders in the preparation of all estimates and furnish them regularly with such statistics relating to accounts as they may require for controlling expenditure against grants placed at their disposal. They are responsible for the preparation of the periodical accounts of their respective areas submitted to the M. A. G. (Military Accountant General) and the Auditor General. They are also responsible for the payment of bills and the consolidation of accounts in connection with the M. E. S. Expenditure. The monthly pay accounts and the T. A. claims of units, officers and establishments in their areas are prepared locally by the establishment of the M. A. D. (Military Accounts Department) wherever a representative of the M. A. D. styled as 'Unit Accountant' is attached to a unit or formation. In units, etc., where there are no representatives of the M. A. D., these documents are prepared by the establishment of the unit, etc. In addition to a detailed check of accounts in his office, the Controller arranges for the periodical local audit and inspection of the cash and store accounts maintained in units and formations. The duties of the Controller combine the function of a Civil Treasury Officer and of an Account Officer of a Province. The pay accounts of Army Officers and other ranks are dealt with centrally by the C. M. A., O. & CH, Rawalpindi and the F. C. M. A. (O. Rs.) Lahore, respectively. On receipt of claims from unit accountants, etc., payments are either made by Controllers after a careful preliminary check subject to a detailed check conducted subsequently, or payments are made by Imprest Holders and the claims are subjected to post audit by the C. M. A. (O. & CH) and the F.C.M.A. (O. Rs.). The C.M.A. (Pensions) Lahore, however, acts as Financial Adviser to all the Defence Forces in pension matters.

167. In addition to the Controllers of Military Accounts specified in para. 165 above, who are mainly concerned with the pay and store accounts of combatant and Departmental units in their areas (excepting the Ordnance and Clothing Factories, the Air Force and the Naval



Accounts), there are Controllers for Air Force Accounts and Naval Accounts whose offices are located at Lahore and Karachi respectively. These Controllers deal with the accounts, disbursements, internal check and compilation of the accounts of their respective services. The Controller of Military Accounts (Pensions) Lahore deals with the Military pension claims (except those of the personnel under the audit control of the Controller of Army Factory accounts) and audits and compiles the Military Pension Accounts. The C. M. A., Lahore is responsible for the audit and compilation of Family Pension Provident Fund Accounts. He is also responsible for the accounting and audit of leave passage concessions of officers, etc. (Military and Civilians paid from Defence Services estimates including such officers, etc., in temporary civil employ and on foreign service). All claims of pensions of Army Factory personnel are dealt with by the Controller of Army Factory Accounts, Rawalpindi. The audit and compilation of these charges are conducted by the C. M. A. (P.) Lahore. The Controller of Army Factory Accounts, Rawalpindi is responsible for the audit and compilation of the Railway charges and passages other than leave passage concessions.

168. For the preparation of Factory Accounts, one Accounts Office under a Deputy Assistant Controller (except at Lahore) is attached to each factory in the following stations :—

Sialkot, Rawalpindi and Wah.

The Controller of Naval Accounts, Karachi is responsible for the maintenance of manufacture and store accounts and for the distribution of wages of the Karachi Dockyard.

169. The Military Accountant General, who is responsible to the Secretary, Finance Department through the Financial Adviser (Military Finance) is the head of the Military Accounts Department. To ensure the maintenance of the work of the Defence Accounts offices at a high standard of efficiency, the Military Accountant General or the Deputy Military Accountant General attached to his office, acting on his behalf, periodically visit the various Defence Accounts offices.

#### D.—RAILWAY DEPARTMENT.

##### I.—RAILWAYS—OPEN LINES.

##### (a) *Relations with the Treasury.*

170. *Cash Collections and Funds.*—Except for a few large stations, each Railway station remits its cash collections daily to the Accounts Officer of the Railway at headquarters, who makes consolidated payments into the headquarters Government treasury. At the end of each month a consolidated receipt is furnished by the treasury to the Accounts Officer. A few large stations pay their collections direct into the nearest treasury. Funds are obtained on cheques.

##### (b) *Preparation of Initial Accounts.*

##### 171. *Deleted.*

172. *Receipts.*—On Railways, the revenue unit is the station, in charge of a Station Master, who remits his cash collections daily to the Accounts Officer and sends him monthly accounts of receipts.



173. Each station maintains two main Cash Books for coaching and goods traffic respectively. There are also a number of subsidiary registers in which are recorded the details of the collections under each head of traffic. Thus, under coaching, a separate account is maintained in respect of passengers' tickets, excess fares, parcels, luggage, horses, carriages and dogs, etc.; and, under goods, on account of both inward and outward consignments. Each of these accounts is again sub-divided into two parts according as the traffic is "local", that is, beginning and terminating on the home Railway, or "foreign", that is, beginning or terminating on another Railway.

174. At the close of the month each Station Master prepares two cash accounts called balance sheets, one for coaching and the other for goods transactions. The entries for both receipts and payments (that is, remittances to the Accounts office) are taken from the Cash Books and subsidiary registers and are supported by vouchers and schedules. The closing balances represent the cash in hand or sums recoverable for which the Station Master is held accountable.

175. *Payments.*—The Station Master makes no payments, nor indeed do any Railway Officers on open lines except in special cases. Payments are made by the Accounts Officers, after check of the bills, through the agency of a staff of travelling pay clerks. The spending units are the various departments of the Railway, namely, Managerial, Engineering, Traffic, Locomotive, etc., or the Divisions where the Divisional system has been introduced. After the bills are checked and paid, they are entered in the primary registers and books, from which the monthly accounts of the Railway are compiled.

176. The executive departments responsible for the maintenance and working of open lines of a Railway are not permitted (except in certain special instances) to make their own purchases of materials required by them in their operations. All such purchases are centralised in the Stores Department under the control of a Controller of Stores by whom issues of materials are made to executive departments as required. Initial documents connected therewith are submitted to the Accounts Officer, by whom the stores accounts are compiled, the Controller of Stores maintaining numerical records of stock only.

## II.—RAILWAYS UNDER CONSTRUCTION.

177. *Organisation.*—For administrative purposes a railway line under construction is divided into a number of divisions, each being in charge of an Executive Engineer who is responsible for all the expenditure incurred in his division whether by himself or by his subordinates. As in the case of the Public Works Department, each railway division is divided into a number of sub-divisions which are in charge of Assistant Engineers or Upper Subordinates.

178. The procedure followed in accounting for the receipts and payments of a Railway under construction is generally similar to that described above in the section dealing with the Public Works Department. Similar records are maintained both by the Divisional Officer and his Sub-divisional Officers, and monthly accounts in similar form are rendered to the Accounts Officer.



## E.—POSTS AND TELEGRAPHS DEPARTMENT.

## I.—POSTAL SECTION.

(a) *Relations with the Treasury.*

**179. Cash Collections and Funds.**—Unlike most other departments, Post Offices do not remit all their departmental receipts direct into treasuries, but are permitted to utilise their cash receipts for departmental purposes. They remit only the surplus cash to the treasury. The surplus cash collections are sent to the treasury along with the usual *chalan*.

Post Offices receive funds for their cash requirements from treasuries on presentation of simple receipts. At places where treasury business is conducted by the Bank, payments for amounts of not less than Rs. 250 on account of Postal transactions required to be made to firms and individuals are made by means of cheques drawn on the Bank. All payments are made against the letters of credit issued by the Accountant General, Posts and Telegraphs, concerned. The money receipts or the paid cheques support the debits in the treasury List of Payments.

All transactions both of drawings and payments are recorded in one Treasury Pass Book maintained in each Post Office. This Pass Book is sent to the treasury with all cash transactions, as they occur, and attested by the Treasury Officer. In the case of drawings by means of cheques, the Treasury Pass Book is not sent to the treasury at the time the entry is made, but it is sent only when the next cash transaction takes place. The entry for the cheque drawn is attested by the Treasury Officer only after the cheque is cashed. At the end of each month a consolidated treasury receipt for all payments into the treasury made during the month and also a consolidated Postal receipt (in duplicate) for all drawings from the treasury during the month are prepared by the Postmaster with reference to the Treasury Pass Book and sent to the Treasury Officer, who, after necessary verification, returns the former to the Post Master for submission to his Audit Officer, Accountant General, Posts and Telegraphs concerned and retains the latter for transmission to his own Account Officer.

(b) *Preparation of Initial Accounts.*

**180. Organisation and Account Record.**—The account unit is the Head Post Office, which incorporates in its accounts the transactions of the sub and branch post offices under it. The primary accounts maintained by a Head Post Office are—

- (1) The Treasurer's Cash Book ;
- (2) The Head Office Summary ;
- (3) The Head Office Cash Book.

**181. Treasurer's Cash Book.**—In each Head Post Office one of the clerks is appointed Treasurer and receives and pays all money. In some of the larger Post Offices the treasury work is done by contractors who are also designated as "Treasurers". All valuables are kept in a safe, under double locks, one key of which is held by the Post Master



and the other by the Treasurer. All transactions of receipts and payments (including stamps) are entered in the Treasurer's Cash Book as they take place. At the close of the day the Cash Book is totalled and balanced and signed by the Post Master, who at the same time verifies the cash balance.

**182. Head Office Summary.**—This is a classified account of cash receipts and payments of the head office and is written up daily by the Treasurer, its daily balance agreeing with the daily balance of the Treasurer's Cash Book. As each transaction of receipt and payment occurs, it is entered, not only in the Cash Book, but also, by an independent clerk, in subsidiary registers, such as Letter Postage Account, Register of Miscellaneous Receipts and Payments, Register of Cash Certificates, Money Orders, and Savings Bank Journals, Register of Treasury Transactions, etc. The daily totals of these subsidiary registers are taken into the Summary. In this respect the system is similar to that of a civil treasury (Chapter 8). In addition to the account items the Summary contains a memorandum of items kept out of account in the joint custody of the Post Master and the Treasurer, as for example, undisbursed pay and allowances, value-payable money orders remaining in hand, etc. It is signed daily by both the Post Master and the Treasurer.

**183. Head Office Cash Book.**—This is a classified record of the daily transactions, not only of the head office, but also of the sub and branch offices under it. The entries are made daily by the Post Master from the head, sub and branch office summaries (the two latter prepared in the head office from the sub and branch office accounts), and progressive totals are struck from day to day. A daily balance sheet is also prepared to effect a reconciliation between the Head Office Cash Book and the Treasurer's Cash Book.

**184. Monthly Cash Account.**—On the first of each month a Cash Account is sent by each head office to the Accountant General concerned. The entries are taken from the Head Office Cash Book and a statement is given at the foot of the account showing total drawings from and remittances to each treasury with which the head office (including its sub and branch offices) has transactions. The Cash Account is signed by the Post Master and is accompanied by a Cash Balance Report in the prescribed form, as well as vouchers and schedules.

**185. Other Returns.**—In addition to the monthly cash account and the cash balance report, the head office sends weekly, or fortnightly, as the case may be, to the Accountant General concerned, journals of Money Order, Savings Bank and Cash Certificate transactions of its own and its sub and branch offices, supported by vouchers.

**186. Railway Mail Service.**—In the case of the Railway Mail Service the account unit is the Head Record Office and the primary account maintained in that office is the Cash Book in which the transactions with the local Head Post Office are recorded. Cash Accounts are submitted twice in the month by each Head Record Clerk to the Account office, which incorporates the accounts in the Classified Abstract of the Head Post Office concerned.



## II.—TELEGRAPH SECTION.

(a) *Relations with the Treasury.*

187. *Cash Collections and Funds.*—Officers-in-Charge of Departmental Telegraph Offices (excepting certain selected ones) and Radio Offices draw funds from, and remit their receipts to, the local Post Offices Disbursing Officers of the selected Departmental Telegraph Offices and of the Telegraph Engineering and Wireless Branches obtain funds from treasuries by drawing money on cheques without letters of credit. The paid cheques support the debits in the treasury List of Payments. The disbursing officers who draw money from the treasury deposit their cash receipts also into the treasury. Cheques drawn by the disbursing officers are recorded in a Treasury Pass Book, whereas each remittance of cash receipts is entered in a Remittance Book and sent to the treasury accompanied by a *chalan* and is acknowledged by the treasury.

For cheques drawn, the Treasury Pass Book duly completed for the month is sent to the Treasury Officer who issues a certificate of the total issue from the treasury on cheques drawn by the Telegraph Officers. For payments into the treasury a consolidated Treasury Receipt for all remittances made during the month is prepared and sent to the Treasury Officer for signature.

(b) *Preparation of Initial Accounts.*

188. *Account Records.*—Separate accounts are maintained by each Telegraph Engineering and Wireless Officer and each Officer-in-charge of a Departmental Telegraph or Radio Office. The former is responsible for all receipts realised and expenditure incurred in connection with the construction, maintenance, and repair of telegraph lines within his jurisdiction, while the latter has to account for all receipts and disbursements of his own office.

189. The primary account record in the case of Telegraph Engineering and Wireless Offices, Departmental Telegraph Offices and Radio Offices is the Cash Book which contains a complete record of the cash transactions as they take place. At the close of the month a classified account, called the "Account Current" in the case of the Telegraph Engineering and Wireless Offices or the "Primary Abstract of the Cash Book" in the case of the Departmental Telegraph and Radio Offices, is prepared and sent to the Accountant General, Posts and Telegraphs concerned, for audit and further compilations.

190. *Stores Transactions.*—A central depot in Karachi, with branches in several places in Pakistan, and divisional depots at the headquarters of Telegraph Engineering Divisions maintain a very large stock of materials and instruments for the use of the Department. Detailed ledgers for these stores are maintained by the Account Office, to which the depots render daily accounts of receipts and issues. Monthly adjustments are made in the Account Office debiting the proper account heads with the net value of stores issued or freight charges incurred.



191. *Works Accounts.*—In respect of construction, the responsibilities of Divisional Engineers of Telegraphs are analogous with those of Divisional Officers of the Public Works Department. There is, therefore, a similar procedure in respect of Registers of Works, Muster Rolls, and Contractors' Ledgers.

## F.—FOREST DEPARTMENT.

### (a) *Relations with the Treasury.*

192. *Cash Collections and Funds.*—The Forest Department does not use a pass book for treasury receipts or payments. Receipts are sent to the treasury with a *chalan* in duplicate; one copy is retained with the treasury while the other is returned as an acknowledgment. Funds are supplied to officers in the Forest Department by means of cheques drawn on civil treasuries with which the drawing officers may be placed in account by the Accountant General. A consolidated receipt for the month's remittances is furnished by the treasury to the Divisional Forest Officer. The debits in the List of Payments are as usual supported by the paid cheques.

### (b) *Preparation of Initial Accounts.*

193. *Organisation.*—As in the Public Works Department, the Forest administrative and accounts unit is the "division", which includes one or more sub-divisions. The division is under the charge of a Divisional Officer, on whom rests the responsibility for the effective internal check and control of the accounts of the entire division, in respect of both revenue and expenditure.

194. The Conservator, who is incharge of a "circle" comprising a number of divisions, is responsible for exercising a strict control over the whole outlay for Conservancy and Works and for examining the charges on account of travelling allowance and contingencies.

195. *Account Records.*—Like the Divisional Officer in the Public Works Department, each (Divisional and Sub-divisional) Forest Officer has a cash chest in which he keeps revenue not remitted to the treasury and money drawn from the treasury not paid away. The cash is counted by the Forest Officer himself on the last day of the month and a report is sent to the Account Officer.

196. The main divisional account record is the Cash Book, in which are recorded the daily transactions as they take place as well as the monthly total of the Sub-divisional Cash Books received towards the end of the month.

In addition to his Cash Book the Divisional Officer maintains a Register of Cheques Drawn, a Register of Works, an Account of Stores and a Contractors' and Disbursers' Ledger or running account with each departmental contractor and disbursers.

197. Besides a copy of the monthly Register of Cheques Drawn the Divisional Officer renders to the Account Officer the following monthly



accounts and such other accounts of revenue due and outstanding and of timber and other transactions as the Accountant General may from time to time require :—

- (i) Cash Account ;
- (ii) Classified Abstract of Revenue and Expenditure ;
- (iii) Schedule of Remittances to the Treasury ;
- (iv) Schedule of transactions with other Governments ;
- (v) Abstract of Contractors' and Disbursers' Ledger.

198. The Cash Account is a general account of the receipts and disbursements of the whole of the Division, and is compiled from the Divisional Cash Book. In the Classified Abstract of Revenue and Expenditure all items of revenue and expenditure for the month are classified and arranged in accordance with the prescribed accounts classification, the entries being made in such detail as may be required by the Account Officer. The Schedule of Remittances is supported by the treasury receipts and shows each item of remittance separately.

#### G.—OTHER DEPARTMENTS.

199. *General Arrangements.*—There are certain other departments whose initial accounts are not fully compiled at the treasury, *e.g.*, the Customs Department, the Department of Central Excises and Salt, the Mint, etc. The relations of these departments with the treasury and the arrangements in each for the preparation of the initial accounts are described in the relevant local manuals.



## CHAPTER 10.

## The Original Records. The Basis of Accounts and Audit.

**200. Accuracy.**—It is the duty of Audit to take all possible steps to ensure that the accounts represent the actual state of affairs. The accounts of the Civil, Public Works and Forest Departments are compiled in the combined Audit and Account Offices, and so also are those of the Posts and Telegraphs Department; and it is, therefore, possible for Audit to certify that, throughout the whole system, these accounts are, to its satisfaction, accurately built up from the records submitted by the Treasury or Departmental Officers. In the case of accounts which are not kept in Audit Offices the compilation made by the Account Office is checked by the Audit staff, and in these cases also Audit is able to certify to the correctness of the compilation from the records submitted to the Account Office by other officers and from those which were already in its possession.

**201. Vouchers.**—It has been shown in Chapters 8 and 9 that the accounts submitted to the Account Office by the Treasury or Departmental Officers are copies of the initial accounts supported by the necessary vouchers. Thus, the major portion of the original records, namely, the initial accounts and other books or papers on which these accounts are based, are retained in the offices where they originate. Except, therefore, the vouchers received with the monthly accounts, the position in regard to which is explained in the following two paragraphs, the original records are not available either for accounting or for audit at the time of the compilation at a Central Office. It is obvious, however, that, unless the original records represent facts, the accuracy of the subsequent work performed on the basis of these records is of no avail. It is most important, then, to see how far Audit is able to ascertain the accuracy of the original records.

**202.** As has already been stated, every Government payment is made on a document called a voucher (or an acquittance) which gives the amount, nature, and period of the payment and all other details necessary for its complete identification; and contains a receipt of acknowledgment or acquittance by the person to whom the payment is due. This system, whereby the payer obtains documentary evidence from the payee in proof of the payment made by him, is universal in both Government and commercial accounts. From the point of view of the payer the document is called a voucher or acquittance; from that of the payee a receipt. Where payment on a bill is made by cheque the paid cheque forms an additional voucher in support of the actual payment made in cash. It is the duty of Audit to enforce this system, that is, to see that for every payment there is a voucher in proper form, properly drawn up, arithmetically correct, and receipted by the proper person. In the case of payments made on bills, whether departmentally or at the Treasury, the preliminary check in this direction is made at the Departmental Office or at the Treasury, and the vouchers (except those for petty payments) are then submitted with the monthly accounts and are checked finally by the Audit staff.



203. The Public Works Engineer counts coolies and records their numbers in a Muster Roll ; he measures construction works and enters the measurements in a Measurement Book, the Civil or Military Officer musters and enumerates the establishments, corps, etc., he has under him, and prepares and signs a pay bill for them ; he signs or countersigns a travelling allowances bill for himself and others founded on special or general knowledge that the journeys for which travelling allowance is claimed have actually been performed ; he submits a claim for contingencies or supplies after seeing personally (or through others) that the articles charged for are required for the public service and have actually been purchased and brought into public use : the Collector counts cash stamps, etc., in his treasury and thus proves his accounts for the month etc., etc. At these points the accounts spring direct from the facts ; at these points they obtain whatever vitality and reality they possess ; their accordance with the facts, through all their subsequent changes of form, depends on their truth at these points. Generally speaking, in Pakistan, Audit does not come in here at all ; the executive and administrative Disbursing Officers alone verify the initial record with fact ; the accordance of the initial record with fact is accepted by Audit on their statement and responsibility, except where there is collateral evidence of error.

204. *Receipts and Certificates.*—What Audit does in all these cases is to require receipts of the payees, certificates of the Disbursing Officers and the countersignature of Controlling Officers. Thus for construction, it requires receipts of the contractors and others to whom large payments are made (not receipts given by individual labourers) ; certificates given by the disbursing officers of measurements of work done, of the counting of labourers and of receipt of supplies and of completion of work ; and, in the case of works for which contracts are executed, certificates of the rates having been approved by the authorities sanctioning the contracts. For contingencies, receipts given by payees (except those for petty amounts) are obtained, and certificates from the Disbursing Officers that the payments were necessary for the public service and have actually been made : also in some cases, the disbursers' certificates are re-inforced by countersignature of the bills by Superior Officers. For pay, receipts are obtained from gazetted Government servants, and in respect of non-gazetted Government servants certificates (from heads of offices) that they have actually been present on duty, and that previous pay has been paid to them and their receipts recorded. For leave and pension payments, receipts only are necessary : for travelling allowances, receipts (not from non-gazetted Government servants), technical certificates and countersignature, etc., etc.

205. The contact of the Audit Office with the facts is, therefore, through receipts and certificates, re-inforced in some cases by countersignature. It has no opportunity of seeing the facts with its own eyes and comparing the bills with them. The question, therefore arises how far receipts and certificates guarantee the facts. It may be said at once that while they are much better than nothing, they cannot guarantee the facts with absolute accuracy.

206. *Impossibility of Verification by Audit Office.*—It must be admitted, however, that it would be impossible for Audit to verify the initial facts unless a representative of the Audit Department were present



at every act vouched by the certificates enumerated in paragraph 204 above. Those acts include the payment of the pay and allowances of, and the journeys performed by every Government servant, the measurement of all work done by and for the Public Works Department, and the verification of Government stores of all descriptions including coin, stamps and other valuables. It is obvious, then, that the Audit Department could not verify the actual facts without a very much larger establishment, and the extra expenditure thereby involved would undoubtedly be disproportionate to the advantages obtained.

**207. Part played by Countersigning and Controlling Officers.**—The recognition of this fact has led to the check exercised by Audit being supplemented to a large extent by executive check. Work done and paid for in the Public Works Department is inspected by Superior Officers of that Department, travelling allowance bills are checked by countersigning authorities who are in a position to have knowledge of journeys performed, bills for important contingent expenditure are countersigned by Controlling Officers who can verify and judge the necessity for such expenditure and the proper rates of payment and can satisfy themselves at inspection that the materials billed for have been purchased.

**208.** As regards the verification of original records relating to the receipts of money, where such receipts are required to be audited by the Pakistan Audit Department, the position is explained in Chapter 13.

**209.** Because this work is not done in the Pakistan Audit Department, there is a tendency in the executive departments to overlook its importance and to consider that it would be better done if it were undertaken by the Officers of the Pakistan Audit Department. But although the latter have the technical training in checking accounts, executive officers have an intimate knowledge of the details of the work done and are in a better position to verify the facts and to check the economy of the expenditure passed by them than outside officials would be. Audit has, therefore, to depend largely upon the Executive in this respect. It is, however, the duty of Audit Officers to scrutinise, with reference to the records submitted for audit, the manner in which the executive officers discharge their financial responsibilities; and in order to supplement this scrutiny, a local inspection, including a test-audit of the original records of the treasuries, Public Works divisions, and (where possible and desirable) other important account units, is conducted periodically by the Audit Office. (See Chapter 36.)

**210.** Audit is, however, not entitled to make independent enquiries among the tax-payers or the general public, as such action is held to be an encroachment on the functions of the Executive. Audit should confine itself to calling upon the Executive to obtain and furnish the necessary information; and, in cases of difficulty, it should confer with the Executive as to the best means of obtaining the evidence which it requires.

**211. Detection of fraud.**—It has already been pointed out that commercial audit regards the detection of fraud as one of its main duties. But such detection is almost impossible except at the verification of the original records, and so the detection of fraud in the Audit Office in Pakistan is very rare. And yet it must not be hastily assumed that



this indicates a defect in the system of Government audit in Pakistan. The detection of fraud by an executive officer is frequently due to the letters issued by the Audit Office plainly indicating that something is wrong. Thus in one case the Audit Officer pointed out that in a certain office there were frequent violations of the important rule that money should not be drawn in advance of requirements. This led the head of the office to examine his account carefully with the result that he detected frauds amounting to over Rs. 3,000. Numerous similar cases can be quoted showing that action taken by the Audit Office has led to the detection of fraud. Frauds are also detected at the local inspections mentioned in paragraph 209, which give the expert eye of the trained auditor an opportunity to detect in the original records suspicious factors which could not come to notice in the Audit Office.

212. It is essential to investigate frauds carefully because valuable lessons can almost always be learnt from them. There is a tendency to suggest the framing of new rules to prevent each particular fraud. This tendency should be resisted: there are quite enough rules already, and, if the preventive machinery is made too elaborate, the chances are that it will not work efficiently. The main point in every fraud investigation must be to ascertain whether the exercise of ordinary common sense, such as one ought to expect from every Government official, and the application of existing rules, would not have rendered the fraud impossible. The importance of this line of investigation should always be borne in mind, because fraud is prevented far more by punishing the person guilty of the defalcation and the official whose negligence rendered the fraud possible than by adding to the enormous number of rules already in existence. But fraud investigation *may* sometimes indicate a defective system of check and then the revision of the system is essential.

213. *Records submitted to the Account office.*—The main monthly records submitted to the Account Office by each treasury are, as already stated, the Cash Account and the List of Payments with supporting schedules and vouchers.

214. The important feature of the Cash Account is the abstract which starts with the opening balance, shows the total receipts and payments, and thus works up to the closing balance. The Cash Account is supported by a certificate that the cash balance shown in the account has been verified according to prescribed rules and agrees with the balance report in the Cash Balance Report of the treasury for the last day of the month. The List of Payments together with the schedules appertaining to it shows the vouchers required, the vouchers forwarded, and those still to be submitted. It is also to be seen that the details in each work up to the totals and that the details agree with the supporting documents.

215. Similar accounts are also submitted to the Account Office direct by officers who draw money from the treasury by cheques and keep the detailed accounts of the payments made, and similar checks are applied in those cases also.



216. In checking the vouchers furnished in support of the accounts the more important points to which the auditor devotes his attention are—

- (a) that the vouchers are in the prescribed form, that they are duly receipted by the payees, that they are in original, that a brief abstract is given in English under the signature of the drawing officer on all vouchers written purely in any of the modern Pakistani languages, and that signatures in other than English characters are transliterated, also that sub-vouchers contain notes of dates of payment;
- (b) that they are numbered with reference to the number in the List of Payments, schedule, schedule docket or other account as the case may be;
- (c) that the details work up to the totals and that the totals are in words as well as in figures;
- (d) that they bear a Pay Order, signed by the Treasury Officer in the case of vouchers cashed at treasuries or by the responsible disbursing officer in the case of other vouchers;
- (e) that they are stamped "Paid";
- (f) that there are no erasures, and that any alterations in the totals are attested by the officer concerned as many times as they are made;
- (g) that receipt stamps are affixed to vouchers, where necessary, and that they are punched;
- (h) that, except in cases in which it is specifically authorised, no payment is made on a voucher or order signed by a subordinate instead of the head of the office himself, or on a voucher or order signed with a stamp; and that copies of sanctions are certified by the sanctioning officer or by a gazetted officer authorised to sign for him;
- (i) that, in all cases in which it is prescribed that agreement should be effected between two different documents, the fact of the agreement is noted on both the documents and initialled by the accounts clerk who makes the agreement;
- (j) that, if a treasury voucher be paid by transfer, it is stamped as having been so paid, that the head to which the amount is credited is noted on it, and that the credit is traced in the Cash Account when possible;
- (k) that fund and income-tax deductions have been made in strict conformity with the rules; and
- (l) that, except in certain specified cases, no claim against Government not preferred within the time limit prescribed by Government has been paid without the sanction of the Audit Officer.



## CHAPTER 11.

## Classification of Receipts and Expenditure in Government Accounts.

**217. General Rules of Classification.**—One of the most distinctive features of the system of Government Accounts in Pakistan is the minute elaboration with which the financial transactions of Government, under both receipts and payments, are differentiated and classified.

**218.** There are four main divisions of Government Accounts :—

(1) Revenue.

(2) Capital.

(3) Debt.

(4) Remittance.

The first division deals with receipts from taxation and other sources of revenue and the expenditure therefrom, the net result of which represents the revenue surplus or deficit for the year. The second division deals with expenditure met usually from borrowed funds, such expenditure being incurred with the object either of increasing concrete assets of a material character, or of reducing future recurring liabilities, such as those for future pensions, by payment of the capitalised value. It also includes receipts of a capital nature which can properly be applied as a set-off to capital expenditure. The third division comprises receipts and payments in respect of which Government incurs a liability to repay the money received or has a claim to recover the amounts paid, together with repayments of the former and recoveries of the latter. The fourth and last division embraces all merely adjusting heads, e.g., cash remittances from one treasury to another, transfers between different accounting circles and remittances between Pakistan and England. Credits and debits taken to the adjusting heads in the first instance are cleared eventually by adjustment under final heads.

**219.** Within each of the four divisions mentioned in the preceding paragraph, the transactions are grouped into Sections which are further sub-divided into the Major heads of Accounts. The Sections are distinguished by letters of the alphabet, a single letter denoting the Revenue portion and a double letter denoting the Capital portion of a particular category of transactions, e.g., Section A denotes the revenue (and expenditure) grouped as 'Principal Heads of Revenue' and Section AA denotes the capital expenditure on works connected therewith. The Major heads in the Revenue and Capital divisions are numbered serially, Roman numerals being employed on the receipt side and Arabic on the disbursement side. No numbering is adopted for Debt heads though these are also arranged in Sections.

**220.** The Major heads which are the main units of classification are sub-divided into Minor heads and the Minor heads into Sub-heads and Detailed heads. Under each of these heads, the expenditure is shown distributed between "voted" and "charged" according as the expenditure is subject to the vote of the Legislature or charged on the revenues of the Government concerned. The detailed classification of account heads used in Government Accounts is given in the "List of Major and



Minor Heads of Account of Central and Provincial Receipts and Disbursements" which is printed separately as an Appendix to the Account Code.

NOTE.—The Major and the Minor heads and the Sub-heads prescribed for the classification of expenditure in the general accounts are not necessarily identical with the Grants, Sub-heads and other units of Grants and Appropriations which are selected by the Finance Department for the Demands for Grants and the Appropriation Accounts; but in general, a certain degree of correlation is maintained between the Demands for Grants and the Appropriation Accounts on the one hand and the general accounts on the other.

**221. Classification of Capital Expenditure.**—Expenditure debitable to Capital may be financed from the following sources :—

(a) Revenue,

(b) Borrowings, either—

(i) specific for a particular purpose, or

(ii) non-specific for all Government purposes, or

(iii) unfunded,

and (c) Sources other than revenue and borrowings, *e.g.*, accumulated balances.

For the purposes of accounts, (b) and (c) are grouped together, the capital expenditure met from these sources being described as outlay financed outside the Revenue Account and being quite apart in treatment from expenditure met from revenue. On the other hand, capital expenditure met from revenue is accounted for separately under the appropriate major head within the Revenue Account. The purpose of recording capital expenditure within the Revenue Account as separate and distinct from revenue expenditure is almost always to enable accounts to be prepared according to commercial principles.

**222. Purpose of detailed Classification.**—The object of all this elaborate classification is to secure the utmost possible uniformity of accounting amid the immense volume and variety of the financial transactions of the Governments in Pakistan, and thereby to render possible, not only reliable comparisons between the accounts of different Governments and periods, but especially the preparation of budget estimates or forecasts of receipts and payments. Classification carried to this extent also compels each disbursing officer to a minute periodical review of the public receipts and payments in his charge, and so makes for effective financial control and economy.

**223. Main Principle of Classification.**—As stated in paragraph 36, the Governor-General or a Governor after consulting the Auditor General has the power to issue any general or special orders as to the head of account under which any specified transaction or transactions of any specified class is or are to be included. Subject to the observance of this condition, and subject also to the directions regulating inter-departmental transfers contained in the Account Code, and to any other rules or orders which have been or may be issued to regulate adjustments between Governments, the broad principle which governs classification generally is that the head to which a receipt or payment belongs has closer reference to the department in which it occurs than to its objects or grounds.



**224. Responsibility for Classification.**—The process of classification has to be carried out most carefully and rigidly. The primary responsibility for the classification of bills, vouchers, etc., rests with the administrative authorities. Thus, every bill or voucher received from the treasuries should have entered on it the following particulars, namely the major, the minor and the detailed heads to which the charges it records belong, and also whether the charges are Central or Provincial and "voted" or "charged" (non-voted); and similarly every item of receipt in the schedules and the monthly cash accounts received from the treasuries should have recorded on them the major, and in most cases also the minor and the detailed heads of classification. One of the most important duties of Account and Audit Offices is to check, before compilation, the classification thus entered, and where it is wanting, to classify the items properly on the bills or vouchers or in the monthly accounts. Where classified accounts are submitted to the Account and Audit Offices, as for example, in the case of the Public Works and Forest Divisions, it is the duty of those offices to check before final compilation the correctness of the classification of every item booked in such accounts.



## PART III

## The Main Principles and the Main Processes of Audit

## CHAPTER 12.

## Functions and Spirit of Audit.

225. *Functions of Audit.*—Government audit necessarily functions in a dual role; firstly, on behalf of the Executive Government to check the compliance by Government servants subordinate to it with the rules and orders issued by it in the discharge of its responsibility to the Legislature or other authority; and secondly, on behalf of the Legislature to secure that the Executive Government (~~aided by its subordinates~~) acts in accordance with the law and also with the views and requirements of the Legislature.

226. It is the first principle of Government Audit to recognise the clear distinction between auditorial and administrative functions. It is a function of the Executive Government to make financial rules and orders and of the subordinates of the Executive Government to apply those rules and orders. It is the function of Audit to verify that financial rules and orders satisfy the provisions of the law and are otherwise free from audit objection and that the rules and orders are properly applied. It is not the function of Audit to prescribe what such rules and orders shall be or to interfere with their administrative application.

227. The audit of the Auditor General is a financial and not an administrative audit. It is not the function of the Audit Department to range over the field of administration or of statistics and offer suggestions how Government may better be conducted. Criticism offered by the Audit Department must be limited to financial criticism based on the accounts.

228. The Executive Government and not the Audit Department is responsible for enforcing economy in the expenditure of public moneys. It is, however, the duty of Audit to bring to notice wastefulness in public administration and infructuous expenditure. Generally, a Government will welcome suggestions to promote economy based on information forthcoming from the accounts; but the right to make such suggestions should be used with discrimination and sparingly and such suggestions should rarely be pressed after initial rejection by Government.



**229. Spirit of Audit.**—Although Audit Officers are bound to ascertain that the prescribed rules and orders are obeyed, it is not to be understood that the mere application of those rules and orders in their minutest details serves the purpose of audit. Such a view does not envisage the fundamental object of an audit department, which is to secure value for the tax-payers' money by seeing that expenditure is not irregularly and wastefully incurred.

**230.** For such a purpose it is necessary, of course, that rules of procedure should be laid down; but, if such rules are to be regarded as ends in themselves and not merely as means to an end, the inevitable tendency will be for Audit Officers to insist rigidly on relatively petty matters and thus to frustrate the real object of audit. For it is clear that, if much time and trouble is occupied, and friction possibly engendered, over expenditure of a very trifling character in regard to which there has been only a technical, as opposed to a substantial irregularity, the State and therefore the tax-payers are losers. That is, it is better often to pass some not fully regularized expenditure of a trifling amount than to embark on lengthy controversy in respect of it. Undue insistence on trifling errors and technical irregularities should whenever possible be avoided and more time attention devoted to the investigation of really important and substantial irregularities with the object not only of securing rectification of the particular irregularity but also of ensuring regularity and propriety in similar cases for the future. At the same time it must be borne in mind that failure to appreciate the significance of what appears to be a trifling irregularity may lead to failure to discover an important fraud or defalcation. An auditor must develop an instinct for assessing the importance of an individual irregularity.

**231.** The prescribed checks should therefore be observed in the spirit and not in the letter as opposed to the spirit. As a rule, trifling matters which are of no consequence to the finances of the State should not be given much attention. To save time and trouble over petty sums, Audit Officers have been given powers by the Central and the Provincial Governments to waive petty objections, and these powers should be exercised freely with discretion.

**232. Procedure for Audit Scrutiny.**—In the scrutiny of accounts and vouchers the following procedure should be observed. The actual person performing the original audit, who will be usually a clerk, must apply the rules strictly. It cannot be expected that the clerks who perform the detailed audit will have the judgment or breadth of view necessary to exercise the discretionary powers mentioned in the preceding paragraph. But once the detailed audit has been carried out strictly and every infraction of rule brought to light, it will be for the competent Audit Officer to exercise the discretion vested in him by Government, as laid down in the Audit Code, and to determine the cases in which the objections which might be raised under the strict letter of the law can be waived.

**233.** If the objection is of such a nature that it cannot be waived under the provisions of the Audit Code, it will be the duty of the Audit Officer to press it firmly but in courteous language. The more important the objection, the more necessary it is to couch it in language courteous and impersonal. In carrying out this audit, the Audit Officer should



remember that exceptional cases may arise in which it is desirable to relax formalities which would be followed strictly in ordinary cases; but the circumstances must be really exceptional before rules are relaxed, and even then the relaxation must be of formalities rather than of essentials.

234. Audit depends for its effective value on its right and duty to report results to the proper authority so that appropriate action may be taken to rectify the irregularity or impropriety, where possible, or to prevent a recurrence of it. It is in the treatment of results of audit that the auditorial function demands the highest qualities of understanding, balanced judgment and sense of proportion.

235. *Audit to assist Government.*—In paragraph 7 it has been pointed out that Audit is an instrument of financial control. It is therefore the duty of the Audit Officer to provide Government with all possible assistance within the sphere of his functions in financial matters. His normal attitude is the critical one, but the duty of criticism must not be developed to exclude the constructive faculty or constructive help. For example, when an Audit Officer has to inspect an office he should not only point out mistakes but also indicate how they may be rectified and in future avoided: he should also suggest improvements in system. He must educate as well as investigate.



## CHAPTER 13.

### Audit of Receipts.

**236. Scope of Receipt Audit.**—The audit of receipts is not ordinarily a statutory function of the Auditor General : but in virtue of his responsibility for the keeping of accounts of receipts he deems it to be within his functions to verify, *in so far as he can, from the accounts rendered to him*, that

- (a) sums due are regularly recovered and checked against demand, and
- (b) sums received are duly brought to credit in the accounts.

**237.** The audit of receipts accruing under Debt and Remittance heads and of those included in the subsidiary accounts of Government commercial undertakings devolves on the Auditor General under sub-paragraph (1) of paragraph 13 of the Audit and Accounts Order and is conducted in such manner and to such an extent as may be prescribed by him.

**238.** The Auditor General does not audit Government receipts other than those mentioned in the preceding paragraph except where he undertakes the audit or is required to do so in the case of a department of the Central Government or of a Province under the provisions of sub-paragraph (2) of paragraph 13 of the Audit and Accounts Order. He will, however, so far as he is enabled to do so from the accounts for the keeping of which he is responsible, supply the Central Government and the Government of every Province with such review of the progress of the revenue collections as they may desire and render them such assistance as they may require in order to ensure that all revenue collected in the revenue collecting departments is brought to credit in the accounts.

**239. Regulations for the conduct of Receipt Audit.**—Where the audit of the receipts of any department of Government is entrusted to the Auditor General under the provision of sub-paragraph (2) of paragraph 13 of the Audit and Accounts Order, it is conducted in accordance with such regulations as may be made by the Governor-General or, as the case may be, by the Governor of the Province, after consultation with the Auditor General.

**240.** In the regulations which have been made by the Governor-General and the Governors for the conduct of the audit of receipts the duties and responsibilities of Audit have been defined as follows :—

(i) It is primarily the responsibility of the departmental authorities to see that all revenue or other debts due to Government, which have to be brought to account, are correctly and promptly assessed, realised and credited to the Public Account, and any investigation by Audit must be so conducted as not to interfere with this executive responsibility. Audit shall, however, have power to examine the correctness of the sums brought to account in respect of receipts of any department in such manner and to such an extent as may be determined by Government in consultation with the Accountant General.



(ii) In the audit of receipts of any Government department the chief aim should be to ascertain that adequate regulation and procedure have been framed to secure an effective check on the assessment, collection, and proper allocation of revenue, and to see by an adequate detailed check that such regulations and procedure are being observed. In the audit of receipts, ordinarily, the general is more important than the particular.

(iii) In the audit of receipts it would be necessary in the case of a department, which is a receiver of public money, to ascertain what checks are imposed against the commission of irregularities at the various stages of collection and accounting and to suggest any appropriate improvement in the procedure. Audit might, for instance, suggest in a particular case that a test inspection should be carried out by a comparison of a sample set of receipt counterfoils with the receipts actually in the hands of the tax-payers or other debtors, the results of such an inspection being made available to audit.

(iv) In no case, however, should independent enquiries be made among the tax-payers or the general public. Audit should confine itself to calling upon the Executive to furnish necessary information, and in cases of difficulty it should confer with the administrative authorities concerned as to the best means of obtaining the evidence which it requires.

(v) The audit of receipts should be regulated mainly with reference to the statutory provisions or financial rules or orders which may be applicable to the particular receipts involved. If the test check reveals any defect in such rules or orders, the advisability of amendment should be brought to notice.

It is however, rarely, if ever, the duty of Audit to question an authoritative interpretation of such rules or orders, and in no case may Audit review a judicial decision, or a decision given by an administrative authority in a *quasi-judicial* capacity. This instruction does not, however, debar an auditor from bringing to notice any conclusion deducible from the examination of the results of a number of such decisions.

(vi) Where any financial rule or order applicable to the case prescribes the scale or periodicity of recoveries it will be the duty of Audit to see, as far as possible, that there is no deviation without proper authority from such scale or periodicity. When this check cannot be exercised centrally, a test audit may be conducted at local inspections, the aim being to secure that disregard of rule or defects of procedure are not such as to lead to leakage of revenue rather than to see that a particular debt due to Government was not realised at all or on due date.

(vii) Ordinarily, Audit should see that no amounts due to Government are left outstanding on its books without sufficient reason. Audit should continue carefully to watch such outstandings and suggest to departmental authorities any feasible means for their recovery. Whenever any dues appear to be irrecoverable, orders for their adjustment should be sought. But unless permitted by any rule or order of a competent authority no sums may be credited to Government by debit to a suspense head; credit must follow, and not precede, actual realisation.



**241. *Classes of Receipts subjected to audit.***—The several classes of receipts which are audited by the Pakistan Audit Department under sub-paragraph (2) of paragraph 13 of the Audit and Accounts Order are mentioned in the Manuals of the respective Audit Officers. The more important classes of receipts audited under the present arrangements comprise Customs receipts, receipts of Railways, receipts of the Posts and Telegraphs Department and receipts realised by officers of the Public Works Department. It has for a long time been considered desirable to extend the Auditor General's activities in the direction of audit of revenue, but owing to practical considerations such extension has had necessarily to be gradual. From time to time a number of accounts of receipts has been added to the lists of those which were previously under the audit of the Auditor General. In practice, whenever large embezzlements in the accounts of a specific institution are suspected or disclosed, the Auditor General is required to undertake the audit of the receipts of that institution.

**242. *Functions of Receipt Audit.***—As mentioned above the check of receipts divides itself into the two functions of seeing (a) that all sums due are regularly received and checked against demand and (b) that all sums received are duly brought to credit in the accounts.

**243. *Check against Demands.***—A public "demand" arises in Pakistan in two ways. Either it is (i) a specific demand, fixed or fluctuating, such as land revenue and excise—all taxation is of this nature—or (ii) it is a demand which arises in consequence of some outgoing of Government property (stock) or Government cash or Government service, in which case it is a claim for a "*quid pro quo*". Of the latter nature are demands set up by the sale of Government lands, stamps, forest produce, etc., by Government cash advances and remittances, and by Government services, such as Railways, Telegraphs, etc.

**244.** The check against (i), the specific demand, is always exercised in one way : the demand, if fixed, is entered in a register and the receipts or satisfactions of it are checked and entered against it : if fluctuating (as in the case of excise and customs duties, etc.), a Government staff is employed to watch the operations on which the demand depends and to collect the dues. This check is for the most part left to the revenue-collecting authorities.

**245.** The check against (ii) varies according to the nature of the demand.

(a) Where the demand arises in consequence of some outgoing of Government property (stock), Audit can operate only if returns of the property are made available to it, such as the monthly returns of stamps and opium sent by the treasuries to the Audit office. The check then consists in seeing that for every reduction of stock in the return there is an equivalent cash credit in the accounts.

(b) Where the demand arises in consequence of some outgoing of Government cash, as in the case of advances and remittances, Audit exercises a direct and complete check, entering the outgoing in a register and watching and recording the receipt against it.

(c) Where the demand is occasioned by some outgoing of Government service, as in the case of Railways and Telegraphs, the dues are collected by the Government staff working the service and their collection



is subjected by Audit to check to such extent as may be prescribed in each case.

246. There is a third class of receipts which occurs without reference to demands, or, as it were, casually. Of this nature are deposits (such as those in the Post Office Savings Bank) and payments to Government for Money Orders. These are repayable; Government acts in regard to them as a banker or remitter; they are not Government dues and ordinarily Audit can exercise no function in connection with their receipt. It does, however, check each repayment against the original receipt.

247. To sum up, the foregoing analysis indicates that Audit plays an extremely limited (though, so far as it goes, important) part in ensuring that Government receives the sums of money due to it, that is, in protecting Government against fraudulent or inadvertent omissions to realise its enormous cash dues. In the main, however, this task is left to the revenue-collecting authorities.

248. *Check of Credit in the Accounts.*—The sums due to Government are either paid by the persons concerned direct into the treasury or paid to a Government servant who is required to receive the same and remit them to the treasury. In the latter case, it is left to the revenue authorities concerned to see that sums received by the members of their departments are paid into the treasury. The task of the Audit Department then resolves itself into seeing that all sums of money paid into the Government treasuries are credited by the treasury staff in their accounts. The first or main safeguard to this end, that is, against error or fraud on the part of the treasury staff, is the printed receipts which have to be given for all payments into a treasury. If Audit could collect all these receipts it would possess an almost perfect check over the credits in the treasury accounts. But, apart from the fact that the Audit Department is debarred from taking such action, this course is not feasible; the receipts are required by the payers as proof of their payments and to protect them against a second demand. In general they remain in the back-ground as a moral safeguard and only operate actively when the need for some inquiry arises, or the repayment of something in the nature of a deposit is required. To establish a more immediate connection between payments and credits, Audit sends to all the large civil revenue-paying departments (such as Land Revenue, Stamps, Excise, etc.) monthly returns of treasury credits. These they compare with their own records, and differences brought to notice are settled. The Public Works, Posts and Telegraphs and Forest Departments send to the Audit office information as to their payments into the treasuries, which it compares with the treasury credits; courts of law send to the Audit office returns of fines paid into the treasury. In this way a very large proportion of the credits in the treasury accounts is verified without much delay, and errors or frauds on the part of the revenue treasury staff are *pro tanto* prevented and corrected. This is a very important and valuable function of Audit.



## CHAPTER 14

## Audit of Expenditure

**249. Essential Conditions governing Expenditure.**—Every payment of money on Government account involves three principal processes :—

- (a) the submission of a claim ;
- (b) the disbursement of the money claimed ; and
- (c) the incorporation of the transaction in the accounts.

It is clear, however, that a disbursing officer must have some criterion whereby he can judge the equity of a claim made, and can justify his action in making a payment in satisfaction of it. We have therefore to consider what conditions regulate public expenditure.

**250.** The incurring of expenditure from the revenues of the Central and the Provincial Governments is governed by the following essential conditions :—

- (i) that there should exist sanction, either special or general, accorded by competent authority, authorising the expenditure ;
- (ii) that there should be provision of funds authorised by competent authority fixing the limits within which the expenditure can be incurred ;
- (iii) that the expenditure incurred should conform to the relevant provisions of the Act or of the Orders made thereunder and should also be in accordance with the financial rules and regulations framed by competent authority ;
- (iv) that the expenditure should be incurred with due regard to broad and general principles of financial propriety.

**251. Duty of Audit.**—In conducting the audit of expenditure the Audit Department has to see that the administrative authorities comply with the essential conditions mentioned in the preceding paragraph. Therefore the audit of expenditure follows the lines of these conditions.

**252.** In conducting the audit in respect of the first three conditions mentioned in paragraph 250, the auditor performs *quasi-judicial* functions, in that he has to apply the rules and orders as they stand, irrespective of the position of the person against whom they are enforced. He may not relax or waive the rules, except where he is specifically empowered to do so.

**253.** In conducting the audit in respect of propriety the Audit Officer has to scrutinise the expenditure from the point of view of an administrative authority. He is required to see that the broad principles of orthodox finance are borne in mind both by disbursing officers and by sanctioning authorities. This class of audit is, therefore, not a matter of application of rules and regulations. Its object is to support a reasonably high standard of public financial morality, of sound financial administration and of devotion to the financial interests of the State. The proper discharge of duties by an Audit Officer in this field is a very delicate matter and requires much discretion and tact.



254. No precise rules have been laid down for regulating the course of audit against propriety. The general principles which have for long been recognised as standards of financial propriety are stated in paragraph 26.

255. The check of the rates paid for work done and supplies made is one of the important aspects of audit against propriety. The Controlling Officer with his intimate knowledge of the details of the work in question is doubtless in a far better position than the Audit Officer to determine fair rates. At the same time, the Audit Officer cannot wholly absolve himself from responsibility in this important branch of audit. The scrutiny of rates usually presents considerable difficulty and therefore demands the exercise of great intelligence and care. Individual abnormalities in rates should of course be watched, but the institution from time to time of a comparative examination through the vouchers and accounts received for audit of the rates paid by various officers in the same or neighbouring localities may indicate cases in which the rates being abnormal, further enquiry may be desirable. Cases involving considerable sums should generally be selected. The assistance of the Finance Ministry may be invoked in obtaining reliable schedules of rates and other necessary information. In the case of Public Works offices, useful work in the direction of making a comparative examination of rates can be done also at the periodical inspections of those offices.

256. It will be apparent that, however, courteously and carefully an auditor may conduct his work, his task is delicate and his duty, if carried out conscientiously, is liable to misrepresentation and attack. At the same time, the responsibility laid upon him is great, both to the Legislature as representing the tax-payers and to the Executive and other authorities to whom is entrusted the immediate financial control of expenditure.



## CHAPTER 15

### Audit of Sanctions.

**257. Nature of Sanction Audit.**—In conducting the audit of expenditure, Audit has not only to see that the expenditure is covered by a sanction, either general or special, but has also to satisfy itself that the authority according a financial sanction is competent to do so in virtue of the powers vested in it by the provisions of the Act or of the Rules or Orders made thereunder or by the rules of delegation of financial authority made by a competent authority and that the sanction is definite and needs no reference to the sanctioning authority itself or to any higher authority. This check is otherwise known as "Audit of Sanctions". Though the duty of Audit in this regard is thus very simply stated, the conduct of this audit is a complicated matter and its complexity lies in the knowledge and the correct application of the principles involved. Audit Officers have to conduct this audit with the utmost care and attention as once a sanction is accepted in audit, expenditure may have to be passed against it for a length of time. In order to conduct the audit of sanctions properly it is therefore incumbent upon Audit Officers to make themselves fully conversant with the powers of sanction of the several authorities.

**258. Communication of Sanctions to Audit.**—The Audit Department is entitled to receive a copy of an order sanctioning expenditure, or a sanction which is otherwise to be enforced in audit, from the authority competent to accord the sanction. The procedure of communicating such sanctions to Audit is determined by the Rules of Business of the Government concerned. If it is claimed that documents relating to any sanction or order are secret, the Accountant General will accept a statement of facts certified by the Governor-General or the Governor, as the case may be, in lieu of those documents.

**259.** In smaller matters, such as contingent expenditure, sanction may be regarded as being accorded by the signature or the counter-signature on a bill; and in such cases it is the duty of the auditor to see that no item in the bill actually requires the sanction of an authority higher than the signing or the countersigning officer.

**260. Audit of sanctions of the Central and Provincial Governments.**—The audit of financial sanctions and orders of the Central and Provincial Governments and of authorities subordinate to them devolves on the Audit Officer concerned, but sanctions and orders which have been issued with the concurrence of the Auditor General require no further audit check.

**261. Audit of Auditor General's Sanctions.**—Sanctions to expenditure accorded by the Auditor General are not subject to scrutiny by the Pakistan Audit Department. Such sanctions are audited by an independent officer appointed by the Governor-General in pursuance of the provisions of paragraph 14 of the Audit and Accounts Order.

**262. Certain guiding Principles governing Sanction Audit.**—In the audit of sanctions to expenditure the guiding principles enunciated below are observed :—

- (i) if the sanctioning authority is vested with full powers in respect of a certain class of expenditure, a sanction accorded under



those powers can be challenged by Audit only on grounds of propriety ;

- (ii) if it is vested with powers which may be exercised provided due regard is paid to certain criteria which are expressed in a general form, sanctions accorded under those powers can be challenged by Audit—
  - (1) if the disregard of the criteria is considered to be so serious as to make the sanction perverse, or
  - (2) if the facts of the case are such as to make the Audit Officer confident that one or more of the criteria have been disregarded ;
- (iii) if it is vested with powers which are expressed in precise terms, the Audit Officer is bound to ascertain that the order defining its powers is obeyed exactly in every instance ;
- (iv) for the purpose of financial sanction a group of works which forms one project shall be considered as one work, and the necessity for obtaining the sanction of a higher authority to a project is not avoided by reason of the fact that the cost of each particular work in the project does not require such sanction ;
- (v) if any one item of a scheme requires sanction of a higher authority, Audit should hold under objection any expenditure on that item until sanction to it is obtained, and in determining whether objection should be raised to expenditure on any other portion of the scheme prior to the receipt of such sanction Audit should see that the expenditure is not likely to exceed at a later date the limit up to which sanction can be accorded by the original sanctioning authority.

**263. Audit of Sanctions to the grant of additions to pay and other special concessions and allowances.**—In scrutinising sanctions and orders for the grant of additions to pay and other special concessions and allowances, Audit besides considering the competency of the authority in relation to the provisions of the Act, is required to examine carefully the reasons for the grant of the special pay, allowance or concession, as recorded in the sanctioning order (or as communicated to it confidentially by the sanctioning authority, if any, such arrangement exists), and should question the propriety of such sanctions if it considers that the principles laid down in the relevant Service rules for the grant of such special pay, concessions, etc., have not been observed. No challenge should be made, however, except on the basis of a specific provision in the relevant rules.

**264. Record of Sanctions.**—All sanctions to expenditure are noted and properly attested in a prescribed audit register or other record against which the audit of the expenditure will be conducted, and if it is known that the charge will entail a recovery from a third party or such a recovery has been ordered by the sanctioning authority, a note of the recovery due is also made in a suitable register so that it may be watched.



265. Sanctions with a long period of currency as well as sanctions of a permanent nature require to be reviewed periodically so that, if there is any reason to think that the administrative authority concerned should be invited to review the sanction, such action may be taken.

266. *Provisions governing Sanctions to expenditure on Public Services.*—Sanctions to expenditure on public services are governed by the relevant provisions of the Act, the various Orders of the Governor-General, the Acts of the appropriate Legislatures in Pakistan, and the various rules, regulations, directions and orders issued thereunder. Some of the most important of those provisions are mentioned in Chapter 23.

267. *Authorities competent to sanction expenditure.*—Subject to the provisions referred to in the preceding paragraph and other similar provisions in regard to expenditure on public services, and subject also to such other provisions as may be made by the Governor-General under paragraph 2 of the Third Schedule to the Act in regard to household and other expenses of the Governor-General and the Governors, sanctions to expenditure from the revenues of the Central Government will be accorded by the Governor-General and from the revenues of the Province by the Governor. The power to sanction expenditure may also be exercised by the authorities subordinate to the Governor-General or the Governor, to whom such powers have been delegated by the Governor-General or the Governor, as the case may be, to such extent and subject to such conditions as may be prescribed in the order of delegation.



## CHAPTER 16.

### Audit against Provision of Funds.

**268. Introductory.**—One of the main conditions governing expenditure, mentioned in paragraph 250, is that there is provision of funds, made by competent authority, fixing the limits within which the expenditure may be incurred. The procedure relating to the provision of funds and the duty and responsibility of Audit in regard to audit of expenditure with reference to such provision are described in this chapter.

**269. Annual Financial Statement.**—A statement of its estimated annual receipts and expenditure arising both in Pakistan and abroad is prepared by each Government and presented to its Legislature. This annual financial statement is generally known as "the Budget". In this statement the sums required to meet expenditure "charged upon the revenues" [See Sections 33 (3) and 78 (3) of the Act] and the sums required to meet other expenditure it is proposed to meet from the revenues are shown separately. So much of the estimates of expenditure as relates to expenditure charged upon the revenues is not submitted to the vote of the Legislature. So much of the estimates as relates to other expenditure is submitted to the Legislature concerned in the form of "Demands for Grants". It is for each Government to settle the form in which the demands should be presented, but ordinarily a separate demand is proposed for each department of Government. Each demand contains, first, a statement of the total amount required, then, a statement of the detailed estimate under each demand divided into items.

**270. Schedule of Authorised Expenditure.**—When the demands for grants are presented, the Legislature may act in any of the following ways :—

- (a) it may assent to the demands ;
- (b) it may refuse to assent to any of the demands ;
- (c) it may assent to a demand subject to a reduction of the amount specified therein.

Thereafter, the Governor General or the Governor, as the case may be, authenticates by his signature a Schedule specifying the "Grants" made by the Legislature as well as the several sums required to meet the expenditure charged upon the revenues, which will hereafter be referred to in this chapter as "Appropriations". The authenticated Schedule is known as the Schedule of Authorised Expenditure.

**271.** The amount of a Grant or an Appropriation once included in the Schedule of Authorised Expenditure cannot be reduced by any authority although, for the purpose of control, the Executive Government may require its officers to spend a smaller sum than that included in the Schedule

**272.** A Grant or Appropriation is intended to cover all the charges including the liabilities of past years, to be paid during a financial year or to be adjusted in the accounts of that year. Any unspent balance lapses and is not available for utilisation in the following year.



**273. *Supplementary Schedule of Authorised Expenditure.***—If in respect of any financial year further expenditure from revenues becomes necessary over and above the expenditure authorised for that year, or when a need arises during the year for expenditure on some new service not contemplated in the budget for the year, a Supplementary Statement of the estimated amount of that expenditure will be laid before the Legislature. The Statement will then be dealt with in the same way as the Annual Financial Statement and the original Demands for Grants are dealt with, and eventually a Supplementary Schedule of Authorised Expenditure may be authenticated by the Governor General or the Governor, as the case may be.

**274. *Sub-heads of Grants and Appropriations.***—For purposes of financial control each Grant or Appropriation is divided into a number of units called “Sub-heads”, each of which may be sub-divided into smaller units of appropriation corresponding to sub-heads or detailed heads of account.

**275. *Allotments and Re-appropriations.***—Within the amount of each Grant or Appropriation as shown in the Schedule of Authorised Expenditure, all allotments to, and re-appropriations within, sub-heads and sub-divisions of sub-heads may be sanctioned by Government or by such subordinate authorities as are duly authorised to do so. This is, however, subject to the limitation that any expenditure not falling within the scope or intention of a Grant may not be authorised from funds provided under that Grant. Any allotment or re-appropriation within a Grant or Appropriation may be authorised at any time before, but not after, the expiry of the financial year to which such Grant or Appropriation relates.

**276. *Re-appropriations from one Grant or Appropriation to another Grant or Appropriation are not permissible.***

**277. *Nature of Audit against Provision of Funds.***—Audit against provision of funds is directed primarily to ascertaining that the money expended has been applied to the purpose or purposes for which the Grants and Appropriations specified in the Schedule of Authorised Expenditure were intended to provide and that the amount of expenditure against each Grant or Appropriation does not exceed the amount included in that Schedule.

**278. *Each Grant or Appropriation specified in the Schedule of Authorised Expenditure is a single total sum appropriated to the purposes set out in it. The particulars of a Grant or Appropriation in that Schedule are, however, based on the detailed estimates drawn up for the information of the Legislature. The distribution in these estimates between the various sub-heads and items may therefore be taken as general evidence of the purposes for which the Grant or Appropriation is made and the expenditure is recorded against the Grant or Appropriation and the sub-head of the Grant or Appropriation under which provision is made for the service.***

**279. *The Audit Officer has to satisfy himself that the expenditure falls within the ambit of a Grant or an Appropriation duly authenticated. Expenditure in excess of the amount of a Grant or Appropriation as well as expenditure not falling within the scope or intention of any Grant or Appropriation as specified in the Authenticated Schedule, unless regularised by a Supplementary Schedule of Authorised Expenditure, will be treated as unauthorised expenditure.***



**280. Appropriation Audit.**—As stated in paragraph 277, Audit is responsible for watching that the total expenditure under a Grant or Appropriation does not exceed the amount of that Grant or Appropriation as specified in the Authenticated Schedule of Authorised Expenditure. It has also to see that the total expenditure on each of the sub-heads fixed as units of appropriation under a Grant or Appropriation does not exceed the allotment thereunder as modified by orders of re-appropriation passed by competent authority from time to time. The first duty involves a responsibility to the Legislature, the second to the financial authority of the Executive Government, *i.e.*, the Finance Ministry/Department.

**281.** In the case of a single Grant or Appropriation which is divided into an English and a Pakistan portion, Audit Officers in Pakistan are responsible for watching expenditure not only against the Pakistan portion but also against the Grant or Appropriation as a whole. The appropriation audit conducted by the Chief Auditor, Pakistan High Commission in United Kingdom, is confined in such cases to seeing that the expenditure in the United Kingdom does not exceed the several sums allotted for such expenditure by competent authority.

**282.** Unless it is otherwise desired by Government as a special case, or where there is a division of superintending control between departmental authorities over a sub-head, appropriation audit will not be exercised beyond sub-heads of a Grant or Appropriation fixed as units of appropriation for the purposes of Appropriation Accounts. In the case of Public Works Department expenditure, however, appropriation audit may be conducted in respect of all works or items of expenditure, the allotments for which, whether individually or by groups, are provided separately for each division.

**283.** Detailed appropriation audit is conducted in two stages—

- (i) the audit of orders of allotment of funds and re-appropriations which are to be enforced in audit, and
- (ii) the audit of expenditure against allotments.

**284.** Subject to the limitations mentioned in paragraph 275, the audit of orders of allotments and re-appropriations consists in seeing—

- (a) that an authority making allotments under a Grant or Appropriation does not allot amounts in excess of those available under the Grant or Appropriation,
- (b) that the amount appropriated is available under the unit from which it is allotted, and
- (c) that the order is issued by competent authority.

**285.** The Audit Officer may be required to see on behalf of the Executive Government that—

- (a) if under the financial rules of that Government a particular object of expenditure requires a specific allotment, all expenditure on it is audited against such allotment, and
- (b) if a lump sum allotment is made for a group of items of expenditure of an office, the total expenditure thereon is audited against the lump sum placed at the disposal of the disbursing officer for the purpose.



When, however, several officers are authorised to incur charges relating to a unit of appropriation, against a lump sum allotment placed for the purpose at the disposal of a single higher authority, it devolves upon this authority to watch the progress of expenditure in all the offices and to keep the aggregate charges within the allotment. If the Audit Officer is requested by Government to audit the charges against the allotment, he will comply with the request.

**286. Watch of Progress of Expenditure.**—Concurrently with the conduct of appropriation audit, the Audit Department watches the progress of expenditure against (1) the Grant or Appropriation as a whole, and (2) allotments for sub-heads, and, where necessary, against subordinate units of appropriation, and issues warnings to disbursing officers, and, if necessary, to controlling authorities also, when excesses appear to be likely. But actually, the responsibility for watching the progress of expenditure against a Grant or Appropriation rests with the Executive, and the Executive is ultimately responsible for keeping the expenditure within the Grant or Appropriation. Audit renders all legitimate assistance to the Executive in this matter and sees that suitable and adequate arrangements exist in all departments of Government for the control of expenditure.

**287. Responsibility for Appropriation Audit.**—The responsibility of audit authorities in regard to appropriation audit, as stated in this chapter, is the responsibility of those Audit Officers under the Auditor General who are also responsible for keeping accounts. In the case of departments whose accounts are kept by a separate organisation not subordinate to the Auditor General the apportionment of responsibility in respect of appropriation audit between the accounting and the audit authorities is described in separate Manuals.



## CHAPTER 17.

## Audit against Rules and Orders.

## (Audit against Regularity.)

288. *General.*—One of the main functions of Audit, as described in Chapter 14, is to see that expenditure conforms to the relevant provisions of the Act or of the Orders made thereunder and is also in accordance with the financial rules, regulations and orders issued by a competent authority either in pursuance of any provisions of the Act or in virtue of powers formally delegated to it by a higher authority.

289. The financial rules, regulations and orders against which audit is conducted fall mainly under the following categories :—

- (i) rules and orders regulating the powers to sanction and incur expenditure from the revenues of the Central and Provincial Governments ;
- (ii) rules and orders dealing with the mode of presentation of claims against Government and of withdrawal of moneys from the Public Accounts of the Central and Provincial Governments, and in general, the financial rules prescribing the detailed procedure to be followed by Government servants in dealing with Government transactions ; and
- (iii) rules and orders regulating the pay, allowances, pensions and other conditions of service of Government servants.

290. The work of audit in relation to regularity of expenditure is of a *quasi-judicial* character. It involves the interpretation of statute, rules and orders with reference to the case-law of previous decisions and precedents. The Auditor General has not, however, save in the case of rules made by himself, the final power of interpretation : this resides in the authority specified in the Act, or where the Act is silent, in the Executive Government. Instructions relating to interpretation by Audit of rules, orders, etc., are contained in paragraphs 295 to 298.

291. *Objects of Audit.*—In applying the check against the financial rules, regulations and orders the Audit Officer has to see that all payments which he is required to audit are effected according to the procedure laid down by the competent authority regulating the mode of transactions, and also that they conform with the conditions governing the pay and allowances, etc., of various services and posts where such payments are involved. The main objects of this check, besides those described in clauses (b), (c) and (d) of paragraph 26, are to ensure—

- (a) that the claims are made in accordance with the rules and in the proper form ;
- (b) that all prescribed preliminaries to expenditure are observed, for example, proper estimates are framed and approved by competent authority for works expenditure, a health certificate is obtained, where necessary, before disbursement of pay to a Government servant, etc. ;



- (c) that the rules regulating the method of payment have been duly observed by the disbursing officer ; and
- (d) that the rates paid for work done or supplies made are in accordance with any scale or schedule prescribed by competent authority.

**292. Scrutiny of Rules and Orders.**—As the audit of expenditure is to be conducted against the financial rules, regulations and orders, it is essential that the rules, regulations and orders themselves should be subjected to examination. The examination consists in seeing—

- (i) that the rules, regulations and orders are not inconsistent with any provisions of the Act or of any Orders issued thereunder ;
- (ii) that they are consistent with the essential requirements of audit and accounts as determined by the Auditor General.
- (iii) that they do not conflict with the orders of, or rules made by, any higher authority ; and
- (iv) that, in cases in which they have not been separately approved by a competent authority, the issuing authority possesses the necessary rule-making power.

In applying the second of these checks the principle to be observed is that the discretion vested in authorities empowered to make rules is not to be fettered unnecessarily merely because difficulty may arise in the application of the necessary audit checks or in the maintenance of proper accounts. If the audit and accounts procedure can be amended without loss of efficiency or extra expense, the rule should be accepted and the procedure amended accordingly.

In applying the third check, the guiding principles enunciated in clauses (i), (ii) and (iii) of paragraph 262 should be observed.

**293.** All orders of delegation of financial authority have to be scrutinised carefully as, once the orders are accepted, audit of sanctions as well as of expenditure or other transactions may be conducted against them for an indefinite length of time.

In the case of delegations of powers to the Auditor General, no scrutiny by an Audit Officer is necessary as such delegations are made after consultation with the Auditor General.

**294.** Rules and orders issued by the Auditor General himself are not subject to the scrutiny of any officer subordinate to him. (See also paragraph 261.)

**295. Interpretation of Statute, Rules and Orders.**—As stated in paragraph 290 the Auditor General does not possess the final power of interpretation of statute and of the rules made and orders issued by the Executive Government. Interpretation by Audit should be based on the plain meaning of the Section, rule or order except where this is inconsistent with another Section, rule or order ; in such a case the inconsistency should be referred to the competent authority for resolution or removal. In no case must interpretation by Audit ever verge on legislation.



296. In the application of rules to concrete cases an Audit Officer may find :—

- (1) that the application of the rule both in letter and in spirit is clear : in such cases it is for him to give his decision : if there are special reasons which in any case render the decision inequitable, it is for the administrative authorities and not for the Audit Officer to move in the matter ;
- (2) that, even though he is confident as to the correct interpretation of the rules, he may think that the wording might be improved : in that event he should give his decision and should suggest a revision to remove the apparent discrepancy between the spirit and the letter of a rule, or between two conflicting rules ;
- (3) that there is a real difficulty in interpretation and that he cannot decide how to apply the rules to that case : in that event he should refer the matter to the competent authorities for a decision.

297. The intention of a rule made by Government can be ascertained authoritatively only by reference to the discussions leading up to the framing of the rule, that is, to the files of Government. Such files may be obtained by Audit Officers, but if they cannot be made available the intention of the rule must be ascertained as nearly as possible from the records of the Audit office in which this or similar rules have been discussed.

298. The following two points should be kept in mind in interpreting orders :—

- (a) the order of a sanctioning authority must generally be interpreted in terms of the communication in which the application for sanction was made ; and
- (b) the word “ etc. ” in an order covers only similar cases of a like nature and not instances where there is a difference.



## CHAPTER 18.

## Audit of Debt and Remittance Transactions.

**299. Nature of Audit.**—Under paragraph 13 (1) (ii) of the Audit and Accounts Order, the Auditor General is responsible for the audit of all transactions of the Central and the Provincial Governments relating to debt, deposits, sinking funds, advances, suspense accounts and remittance business. These transactions are recorded in the Debt and Remittance divisions of the accounts and their nature has been described generally in paragraph 218. The audit checks which are applied to some important categories of these transactions are described in this chapter.

**300.** The general principles and rules of audit which govern audit of expenditure apply *mutatis mutandis* to disbursements under Debt and Remittance heads. In the case of a repayment, Audit is required to check the payment against the original receipt and has to satisfy itself that the repayment is made according to the rules, regulations or orders which govern the transaction. Similarly, in the case of a payment subject to recovery, Audit is required to ascertain that the payment conforms to the authority which governs it and has further to watch that the moneys are regularly repaid by the debtor.

**301.** It is an important part of the duties of Audit to review and verify the balances under Debt heads and the outstandings under Remittance heads as disclosed in the books of Account offices at the close of the year. The first step in the process of this verification is to see how far the final results of any detailed accounts of the transactions work up to, and agree with, the balances on the Ledger. The next step is to ascertain, where necessary, whether the person or persons by whom the balance is owed or to whom it is due admit its correctness and in the case of balances due to Government how far they are really recoverable.

**302. Borrowings.**—Sections 162 and 163 of the Act prescribe the conditions under which the Central and the Provincial Governments may raise loans. It is an important duty of Audit to see that the borrowings of a Government are so regulated as not to exceed the limits fixed by the Legislature from time to time. In the case of loans raised in or outside Pakistan by a Provincial Government or obtained by it from the Central Government, Audit should also watch that any conditions imposed by the Central Government in giving consent to the raising of a loan or in giving a guarantee in respect of a loan or in granting a loan, so far as they fall within the purview of audit, are duly observed by the Provincial Government.

Another important duty of Audit in relation to borrowings is to see that the proceeds of loans are properly brought to account and that they are expended only on objects for which the loans were originally raised or to which borrowed moneys may properly be applied in accordance with sound principles of public finance.

Audit has also to see whether adequate arrangements are made by Government for amortisation of debt, particularly in cases where borrowed moneys are utilised on objects or works which cannot be regarded as productive, and should bring to notice instances in which



amortisation is ignored or appears to be *prima facie* inadequate. The general principles in accordance with which the adequacy of the amortisation arrangements should be examined are set out in the Audit Code.

303. The Audit Department is also responsible for the audit of transactions connected with the Debt Redemption Scheme of the Central Government and of any similar scheme which may be adopted by a Provincial Government. In conducting this audit, the Audit Officer is required to see that the conditions of the scheme are scrupulously observed, that is, the annual debits against Revenue under the scheme are calculated strictly in accordance with the approved programme, that the appropriations for reduction or avoidance of debt are applied to the objects for which the money has been set aside and that liquidation of debt proceeds at the rate and on the lines prescribed.

304. In auditing the transactions connected with the Sinking Funds regularly constituted for the redemption of loans raised by the Central and the Provincial Governments, the Audit Officer has to satisfy himself that credits to these funds are in accordance with the undertakings given by Government and set forth in the prospectus of the loans, and that the payments are eventually utilised for the purpose for which the funds themselves were created.

305. *Contingent Liabilities.*—The guarantees which the Central and the Provincial Governments may give under Sections 162 and 163 of the Act in respect of loans raised by others constitute contingent liabilities of Government, and it is an essential duty of Audit to keep a close watch over them to see that the limits prescribed by the Legislature are not exceeded. In order to safeguard the financial interests of Government in respect of such contingent liabilities, the Audit Officer should satisfy himself that the accounts of the public body or institution whose loan or loans has or have been guaranteed by Government are subjected to audit by qualified auditors acceptable to Government. The Audit Officer may also require that the accounts of the public body or institution as certified by those auditors are submitted to him for general scrutiny. He may even undertake, with the consent of Government, to audit the accounts of any sinking fund created by such a public body or institution in pursuance of a scheme for the liquidation of debt under some statutory provision or otherwise. Such audit will be directed to ascertaining—

- (i) that the scheme of liquidation prescribed as the basis of the sinking fund is financially sound,
- (ii) that the fund contains the amount which should have been accumulated if the prescribed scheme of the sinking fund had been observed in respect both of the amount to be credited to the fund and of the interest which it anticipated, and
- (iii) that the investments of the sinking fund are sound and are valued at not more than their market price.

306. *Investments.*—Audit is responsible for keeping a watch over investment of funds forming part of the Public Account of the Central or of a Provincial Government. It is to be seen in audit that the investments made on account of any regularly constituted Sinking Fund



or other Fund administered by Government are of the category authorised by the statutory provisions or instrument by which the Fund is governed. When there is no governing statutory provision or instrument, proper authority for the investment should be demanded. This principle also applies to the investment of cash balances of the Central or of a Provincial Government. The Audit Officer should take up promptly with the Government any cases of investments which he considers to be unauthorised, irregular or unsound.

**307. Service and Provident Funds.**—The audit of transactions pertaining to Service and Provident Funds controlled by Government mainly consists in seeing that the transactions conform to the rules or regulations governing the administration of each Fund and any subsidiary instructions issued thereunder. Having first satisfied itself that subscriptions to a Service or Provident Fund are received only from such Government servants as are either required or permitted by the rules of the Fund to subscribe to it, Audit will watch that subscriptions and any other dues recoverable under the rules of the Fund are duly and regularly recovered from the Government servant concerned. In the case of Contributory Provident Funds, Audit will also examine that Government's share is properly calculated and brought to account. Finally, Audit is to verify that the accounts of the Funds are correct both in total and in the detailed accounts of the subscribers.

**308. Reserves and Reserve Funds.**—There exist a number of Reserves and Reserve Funds in the Deposit Section of the accounts of the Central and the Provincial Governments which have been created for specific and well defined purposes and are fed by contributions or grants from the revenues of the Central and the Provincial Governments or from outside agencies. In relation to the transactions pertaining to such Funds, Audit is required to see—

- (1) that the transactions are classified and accounted for according to the prescribed principles, and
- (2) that the transactions conform to the rules or orders governing the administration of each Fund made by competent authority.

Audit should also verify the balance at the close of the year standing in the account of each Fund.

**309. Deposits.**—In the case of moneys received to be held as deposits with Government, Audit has to satisfy itself that the moneys can properly be credited to the Public Account of the Central or of a Provincial Government by virtue of a statutory provision or of general or special orders of Government. Audit has also to see that no item is credited as a deposit in the accounts of a Government which could be credited as a revenue receipt or in reduction of ordinary expenditure of that Government. In respect of repayments of deposits, Audit is required to examine that there are proper vouchers in support of the amount repaid and to check each repayment against the original receipt either individually or against the total credit in a particular account in order to see that repayments do not exceed the amounts originally received and credited to Government.



It is also the function of Audit to see that balances in deposit accounts are correctly carried over from year to year, that the balance at the close of the year in each account is acknowledged as correct by the person or body concerned where necessary and practicable and that any deposits remaining unclaimed for such periods as may be prescribed by Government in this behalf are duly credited as revenue receipts of Government.

**310. Loans and Advances by Government.**—Government occasionally makes loans and advances to public and quasi-public bodies and to individuals. Some of these loans and advances are made under special laws, others for special reasons or as a matter of recognised policy. Except in the case of loans and advances made under special laws or in respect of which Government has issued any general rules or orders, Audit may require that the reasons for making it as well as the conditions on which it is made are stated in full in the orders sanctioning the loan or advance. Audit may also enquire the reason for any unusual condition, *e.g.*, remission of interest, in an individual case. Audit should see that the conditions of repayment of a loan or advance are complied with by the debtor and should exercise a close watch over repayment of principal and realisation of interest, if any. In reviewing the outstanding loans and advances, Audit will pay special attention to irregularities in repayment, acknowledgment of balances and unrealisable and doubtful assets.

**311.** In respect of loans and advances the detailed accounts of which are kept by him, the Audit Officer is required to report without delay any default in payment, either of principal or of interest, to the authority which sanctioned the loan or the advance. If that authority enforces any penal interest upon the overdue instalments of interest or principal and interest, it will be the duty of Audit to watch its recovery.

**312.** Any information which may come to the notice of the Audit Officer in the course of his official business in respect of the financial position of a debtor should be communicated by him confidentially to Government with such comments as he may think fit. This duty should be performed by the head of the Audit office personally with the utmost care and discretion.

**313. Suspense Accounts.**—Under Suspense heads are recorded all such transactions as are ultimately removed either by payment or recovery in cash or by book adjustment.

Audit of transactions under Suspense heads consists not only in applying the ordinary procedure of audit of expenditure and receipts but also in seeing—

- (1) that the unadjusted balances under these heads continue to represent *bona fide* assets or liabilities of Government capable of being realised or settled, as the case may be, and
- (2) that satisfactory action towards such realisation or settlement is being taken by the officers responsible therefor.



314. All balances under Suspense heads have to be reviewed at short intervals so that it may be secured that no item remains unadjusted longer than is reasonably necessary to bring about its clearance in the ordinary course with due regard to the rules applicable to each case.

315. *Remittances.*—In the audit of Remittance transactions it has to be seen that debits and credits are cleared either by receipt or payment in cash or by book adjustment under the relevant Service or Revenue heads of account or have been paired off by corresponding credits or debits within the same or in another account circle. An important part of this audit is to scrutinise the balances from month to month in order to effect their early clearance and to determine the accuracy of the outstandings at the end of the year.



**CHAPTER 19.****Audit of Stores and Stock.**

**316. Limitation of Responsibility for Audit of Stores and Stock.**—The payments for purchases of stores and stock are audited according to the rules prescribed by the Auditor General in regard to the audit of expenditure. But the audit of such payments cannot in itself be a complete audit of the final application of the money without an audit of the disposal of stores. As has already been stated in paragraph 22 the audit of stores and stock is left mainly to the departmental authorities in whose custody they are kept. The Audit Department does not audit the accounts of stores and stock kept in any office or department of the Central or of a Provincial Government as a matter of course, except in so far as such audit forms part of its duty in relation to the audit of the subsidiary accounts of Government commercial undertakings. When the Audit Department undertakes such audit, it does so under the provisions of paragraph 13 (2) of the Audit and Accounts Order, with the approval of, or if required by, the Governor General or the Governor of a Province, as the case may be.

**317. Regulations for Audit of Stores and Stock.**—Paragraph 13 (2) of the Audit and Accounts Order provides that the Governor-General or the Governor of a Province may, after consultation with the Auditor General, make regulations with respect to the conduct of the audit of the accounts of stores and stock undertaken under that paragraph. The regulations that have been made in pursuance of this provision are reproduced in an Appendix to the Audit Code. The functions of Audit as prescribed in these regulations are set out in this chapter.

**318. Stores Accounts.**—Whenever material assets have to be retained for any time in the custody of Government servants, stores accounts have to be maintained. Stores accounts, which are records of all articles brought into and sent out of store, may be either quantity accounts without values, or such accounts with values. The general principle which determines which system of accounts will be used is that the former should be employed in the case of stores the cost of which is charged to a final head on purchase or manufacture whereas the latter applies when the cost of the stores is subject to subsequent adjustment. The responsibility of Audit is as a general rule confined to the latter class.

**319. Functions of Audit.**—The audit of stores accounts should be directed to ascertaining that the departmental regulations governing purchase, receipt and issue, custody, condemnation, sale and stock-taking of stores are well devised and properly carried into effect.

**320. As regards purchases of stores, Audit will see that—**

- (i) these are properly sanctioned, are made economically and in accordance with any rules or orders made by competent authority: in particular, when stores are purchased from contractors, the system of open competitive tender is adopted



and the purchase is made from the lowest tenderer unless there are recorded reasons to the contrary ;

- (ii) the rates paid agree with those shown in the contract or agreement made for the supply of the stores ;
- (iii) certificates of quality and quantity are furnished by the passing and receiving Government servants before payment is made, except where the contrary is allowed by the rules of Government regulating purchase of stores ; and
- (iv) purchase orders have not been split up so as to avoid the necessity for obtaining the sanction of a higher authority required with reference to the total amount of the orders.

Audit may call attention to cases of uneconomical purchases of stores and to any losses which may be clearly and definitely attributed to the defective or inferior nature of stores which were accepted and certified to be satisfactory in quality.

**321.** Audit should ascertain that the accounts of receipts of stores, whether purchased or otherwise obtained, and of their issues and balances are correctly maintained. Where a scale has been prescribed by Government or other authority for issue of stores of any particular kind, it should be seen that the scale is not exceeded.

**322.** Stores, in many cases, represent a locking up of capital, which is not justifiable unless essential. In order to effect economy in this direction Audit will see that the balance in hand does not exceed the maximum limit prescribed by competent authority and is not in excess of requirements for a reasonable period.

**323.** The accounting for and maintenance of unserviceable stores which cannot be utilised by the department in whose custody they are kept involve waste of labour and space. The retention of stores in excess of the probable requirements of the department in the near future may result in loss to Government through deterioration. Audit will, therefore, see that measures are taken to survey, segregate and consider the disposal of unserviceable surplus and obsolete stores in accordance with the procedure prescribed by Government in this behalf.

**324.** It is an important function of Audit to ascertain that the articles are counted periodically and otherwise examined for verification of the accuracy of the quantity balances in the books. Audit shall not, except when specially authorised to do so, assume responsibility for the physical verification of stores, but it has the right to investigate balances of stores if any discrepancies in the stores accounts suggest that such action is necessary. Audit has, however, to see that a certificate of verification of stores is recorded periodically by a responsible authority, that the system of verification adopted by the Executive is adequate and proper, that discrepancies found on stock-taking are properly investigated and adjusted and that, wherever possible, the staff responsible for the verification is independent of the staff which is responsible for the physical custody of the stock or for keeping accounts of it.



325. Where a priced account is maintained, Audit will see—

- (i) that the stores are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time, are correlated with market rates and are revised where necessary ;
- (ii) that the value accounts tally with the accounts of works and of departments connected with stores transactions, that the total of the valued account tallies with the outstanding amount in the general accounts, and that the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores, and
- (iii) that steps are taken for the adjustment of profits or losses due to revaluation, stock-taking or other causes, and that these are not indicative of any serious disregard of rules.



## CHAPTER 20.

## Results of Audit—Audit Reports.

**326. Value of Audit.**—The Audit by the Pakistan Audit Department begins in almost all cases after the events have occurred. In some cases, certain classes of payments are made after the claims have been audited and passed by the Audit Department; but these payments, taken together, comprise a negligible percentage of the whole expenditure of Government. Generally speaking, therefore, the whole proceedings of the Audit Department are conducted *ex post facto*, and consequently, Audit cannot prevent an overpayment through negligence or non-observance of the financial rules and regulations, or the commission of any other irregularity or impropriety by the administrative authorities during the course of transactions. As stated in paragraph 234, Audit depends for its effective value on its right and duty to report results to the proper authority so that appropriate action may be taken to rectify the irregularity or impropriety, where possible, or to prevent a recurrence of it. This authority may be a departmental authority, the Government itself or, in the last resort, the Legislature.

**327. Detailed Reports on Audit.**—The detailed results of audit are reported at the earliest opportunity by the Audit Officers to the disbursing and controlling authorities, on whom the responsibility then falls for the settlement of the objections raised in audit and for the recovery of any amount disbursed in excess of that to which the claimant is entitled. Audit Officers are, however, required to keep a constant and careful watch over the objections raised by them and to keep controlling authorities and also the Government itself, where necessary, fully acquainted not only with individual cases of serious disregard of financial rules but also generally with the progress and clearance of objections.

**328. Collective Reports on Audit.**—After the completion of the year's accounts, the results of audit are reported to the Governments concerned and their Legislatures through the medium of Audit Reports under Section 169 of the Act.

In relation to the accounts of the Central Government and of each of the Provincial Governments the Auditor-General submits the two undermentioned Reports :—

- (a) Audit Report on the Appropriation Accounts, and
- (b) Audit Report on the Finance Accounts.

**329.** There are separate Reports on the Appropriation Accounts of the Provincial Governments as well as of the three principal spending departments of the Central Government—the Defence, the Railway and the Posts and Telegraphs Departments. The transactions of the remaining departments of the Central Government are dealt with in a single volume. Similarly, there are separate Reports on the Finance Accounts of the Provincial Governments. There is, however, a single compilation of the Finance Accounts of the Central Government with the Audit Report which covers the transactions of Civil, Defence Services, Posts and Telegraphs Department and the Railways.



**330. Object of the Report on the Appropriation Accounts.**—While Section 169 of the Act imposes on the Auditor General the duty of reporting on the accounts, paragraph 11 (4) of the Audit and Accounts Order prescribes that the Auditor General shall prepare and present both Appropriation Accounts (in the case of accounts kept by him) and Finance Accounts. Thus with the Audit Report on the Appropriation Accounts, the audited accounts in the form of Appropriation Accounts of the entire expenditure ("voted" or "charged") of the Government for each financial year are presented to the Legislature concerned. The Audit Report contains such comments on the regularity and propriety of expenditure as are deemed necessary and proper as a result of audit investigation. It also brings to the notice of the Legislature the result of audit of all trading, manufacturing and profit and loss accounts and balance sheets kept in respect of Government commercial or quasi-commercial undertakings. Besides, it includes the report which the Auditor General is required to make on his examination of any receipts and accounts of stores and stock under paragraph 13 (2) of the Audit and Accounts Order with such comments as he may think fit on any important irregularity discovered in the course of audit of such receipts and accounts.

A776/ **331. Object of the Report on the Finance Accounts.**—The object of the Audit Report on the Finance Accounts is to present to the Legislature with the accounts of the entire receipts and outgoings of the Government for each financial year a report on the financial results disclosed by the different accounts and other data coming under examination, that is to say, the revenue and capital accounts, and the accounts of the public debt and of the liabilities and assets of the Government concerned as deduced from the balances recorded in the books of the Account office and from other information. It supplements the Audit Report on Appropriation Accounts.

An important part of the Audit Report on the Finance Accounts is the Review of balances of Debt and Remittance heads. The object of this Review is, in the first place, to show a complete enumeration of balances under all Debt and Remittance heads and, in the second place, to examine and set out the current state of accounts under each head.

**332. Submission of the Reports.**—The Reports relating to the accounts of the Central Government are submitted to the Governor General who causes them to be laid before the Central Legislature and the Reports relating to the accounts of a Province are submitted to the Governor of the Province who causes them to be laid before the Provincial Legislature.

The procedure which the Provincial Legislatures follow in dealing with these Reports is described in the rules framed by them under Section 84(1) of the Act. The procedure in the Central Legislature will be such as may be prescribed in the rules to be made under Section 38(1) of the Act. The present rules provide *inter alia* for the consideration of the Appropriation Accounts and the connected Audit Report by a Committee of the Legislature known as the Committee on Public Accounts.



*333. Functions of the Public Accounts Committee of the Central and Provincial Legislatures.*—The functions of the Public Accounts Committee of the Central Legislature as laid down in the Pakistan Constituent Assembly (Legislature) Rules are stated below.

- (1) In scrutinising the Appropriation Accounts of the Central Government and the Report of the Auditor General thereon, it shall be the duty of the Public Accounts Committee to satisfy itself—
  - (a) that the moneys shown in the Accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged;
  - (b) that the expenditure conforms to the authority which governs it; and
  - (c) that every re-appropriation has been made in accordance with such rules as may have been prescribed by the Finance Department.
- (2) It shall also be the duty of the Public Accounts Committee—
  - (a) to examine such trading, manufacturing and profit and loss accounts and balance sheets, as the Governor General may have required to be prepared, and the Auditor General's Report thereon; and
  - (b) to consider the Report of the Auditor General in cases where the Governor General may have required him to conduct an audit of any receipt or to examine the accounts of stores and stock.

Similar provisions regarding the functions of the Committees of the Provincial Legislatures are contained in the Legislative Rules of the Provinces.

*334.* The Public Accounts Committee is not an executive body and has no power even after the most minute examination and on the clearest evidence, to disallow any item or to issue an order. It can only call attention to an irregularity or to a failure to deal with it adequately and express its opinion thereon and record its findings and recommendations.

*335. Assistance rendered through the Reports.*—In order adequately to fulfil its functions the Committee must necessarily rely upon the assistance of the Audit Department. Attention of the Committee should accordingly be invited through the Audit Reports to all such unusual features of financial administration and important financial irregularities as the Audit Department may deem suitable for such public comment consistently with its relations with the Finance Ministry Department of the Government concerned. Where accounts are compiled by an authority other than the Audit Officers under the Auditor General, irregularities are also discovered by the accounts staff of that authority during the course of internal check, and some such irregularities may also find a place in the Audit Reports. Having decided what information should be brought to the Committee's notice, the Audit Officer should set forth carefully all the relevant facts, explaining the



obvious inferences to be drawn from them and the points which appear to require examination, in such a way as to enable the Committee to reach a conclusion on each subject or to determine the nature of any further investigation which may be necessary.

**336. Review of Finance.**—In order to present a comprehensive survey of the financial administration of the Government, the Audit Report on the Finance Accounts includes a general review of the financial position of the Government as disclosed in the latest audited accounts of both revenue and debt transactions with such remarks on the final financial result as are deemed necessary or expedient. To indicate the existing position, the cash situation has to be explained and in addition the growth or diminution of liability should be indicated. For this purpose both revenue and expenditure should be analysed suitably and permanent commitments distinguished from those of a temporary character, the former being detailed to the extent necessary and the latter subdivided as may be suitable. Contingent liabilities, such as estimated expenditure on uncompleted schemes or works, should receive special attention. In short every endeavour should be made to convey through the Reports a just and impartial picture of the financial position of the Government.

**337. Disposal of the Reports.**—It devolves upon the Finance Ministry|Department of the Government concerned to consider any recommendations of the Legislature or of the Public Accounts Committee arising out of the Audit Reports and to forward to the Audit Officer concerned as well as to the Auditor General the findings of the Public Accounts Committee or the decisions of the Legislature. This Department also communicates to the Audit Officer all orders passed by the Government on the recommendations of the Legislature or the Public Accounts Committee including the requisite regularisation of excesses over Grants and Appropriations.

The general responsibility for watching the action taken upon each Audit Report rests upon the Audit Officer who is responsible for the initial preparation of the Report. If he has any doubt whether a particular report or question has been adequately dealt with by the Legislature or its Public Accounts Committee of the Finance Ministry|Department of the Government concerned, as the case may be, he should refer the matter for the advice of the Auditor General as to the further action to be taken.

**338. Importance of the Reports.**—The Reports on the Appropriation Accounts and the Finance Accounts are documents of great importance and should invariably receive the personal attention of the head of the Audit office initially responsible for their preparation. Adequate measures should be taken to ensure the accuracy of information which they contain. It should be borne in mind particularly that the control which the Legislature will exercise over the finances of the Government concerned will depend largely upon the effectiveness of the help rendered by these Reports,

**339. Deleted.**



## CHAPTER 21.

### Relations between the Audit Department and the Finance Ministries/Departments of the Central and Provincial Governments.

**340. Co-operation between Audit and the Finance Ministry/Department of Government.**—It is essential that an Audit Officer should work in close co-operation with the Finance Ministry/Department of the Government concerned to enforce propriety and secure regularity in the public expenditure. Generally the Finance Ministry/Department of a Government is the authority primarily responsible for (1) administering the financial rules of the Government and (2) seeing that suitable accounts are maintained by other departments and establishments subordinate to it. The Audit Officer should render all legitimate assistance to the Finance Ministry/Department and not only in cases where advice is sought on application of financial rules or orders concerning which there may be doubt. At the same time the Audit Officer is entitled to seek the support of the Finance Ministry/Department in cases of disregard of rule or order and ordinarily, he should, if necessary, refer to this Ministry/Department before taking any other action open to him whether to secure a satisfactory settlement of an audit objection, or for the production of any papers or information, or for any other purpose.

It will be realised that, though the Audit Officer may and does have to act as the critic of the operations of the Finance Ministry/Department in certain circumstances, the objective of both authorities is in effect the same, namely, the safeguarding of economy, efficiency and propriety in public finance. The desired result can therefore be best attained by the establishment of mutual understanding and co-operation.

**341. Concordats.**—Statements of the principles which both the Auditor General and the various Governments in Pakistan have agreed should govern the relations between Audit and the Central and other Executive Governments have been framed in the form of "Concordats". The terms of each "Concordat" and connected instructions, which are not published documents, must be observed as the basis of the relationship between Audit and the Executive and the head of an Audit office is personally responsible for their observance.

**342. Duties of the Finance Ministry/Department and corresponding functions of the Audit Department.**—The following paragraphs describe how some of the important functions of the Finance Ministry/Department involve co-operation with the Audit Department.

**343. The Finance Ministry/Department frames rules to secure proper financial control and generally consults the Audit Department in this work.** The latter Department in such cases has to see that the rules are so framed as to satisfy the requirements of audit and do not impair the efficiency of audit. The Auditor General determines the form in which officers rendering accounts to the Pakistan Audit Department shall render such accounts, and in which the initial accounts, from which the accounts so rendered are compiled or on which they are based, shall be maintained. Where these accounts do not bring out any particular information which



may be required by a Government for its own special purposes, it rests with the Finance Ministry|Department to arrange for the maintenance of suitable *pro forma* or other accounts. In such matters it will no doubt find it desirable to obtain the advice of the Audit Department. As regards all accounts maintained by departments under a Government the Finance Ministry|Department is responsible for satisfying itself that they are actually kept in accordance with the prescribed rules.

344. The Finance Ministry|Department usually requires the assistance of the Audit Department in preparing the budget estimates and watching the progress of receipts and expenditure ; and as stated in paragraph 39, under the provision of paragraph 15 of the Audit and Accounts Order, it is the duty of the Auditor General to give to the Central Government and to the Government of every Province such information as they may from time to time require and such assistance in the preparation of their annual financial statements as they may reasonably ask for.

The amount of assistance rendered by Audit Officers in relation to the budget is not uniform in all Provinces. Theoretically the Audit Officer should not prepare any budget estimate, except in respect of any Grant of which he is the controlling officer. He should exercise some scrutiny over the consolidated estimates, but in actual practice the assistance rendered by the Audit Officers in some Provinces is much greater.

345. The Finance Ministry|Department demands justification for new expenditure from the department which proposes it and may challenge the necessity for spending so much money to secure a given object. After the expenditure is sanctioned or appears in the accounts, the Audit Officer may in the course of his audit scrutiny entertain some doubts about the necessity for it or about its magnitude and criticise the expenditure on that basis. Thus the Finance Ministry|Department and the Audit Department have analogous functions in regard to new expenditure, the former advises before action is taken and the latter scrutinises the action taken either on receipt of the sanction or when the expenditure appears in the accounts.

346. In regard to the public service in particular, the Audit Department conducts a scale check and apprises the Finance Ministry|Department of any variation in the scale fixed for the service or establishment that requires the sanction of a higher authority.

347. The Finance Ministry|Department, on receipt of a report from the Audit Officer to the effect that expenditure for which there is not sufficient sanction is being incurred, may require the department concerned to take steps to obtain the necessary sanction or to stop the unauthorised expenditure. Where, however, the Government is unable to accept an audit decision given by the Audit Officer, the Auditor General, on a reference being made to him, and having given expression to his views, will not openly and formally question the action of the Finance Ministry|Department except where he is in a position to do so under the terms of the "Concordat".



348. The Finance Ministry/Department examines the proposals for delegation of powers to ensure that such delegations are necessary for the convenient and efficient despatch of public business. After orders for delegations are issued, the Audit Officer has to satisfy himself in all important matters of delegation that they are not likely to impair seriously the efficiency of the conduct of public business. For instance, the principle of authorising disbursing officers themselves to sanction special charges may be carried too far or extended to cases in which obviously some sort of control by higher authority is advisable. If such cases are important, the Audit Officer should make a suitable representation to the Finance Ministry/Department, and thus give the latter the opportunity of reviewing or reconsidering the order as the case may be.



## PART IV.

### The Machinery and Special Processes of Audit and Accounting

#### CHAPTER 22.

##### Office Arrangements and Procedure.

**349. *Introductory.***—The constitution of Audit offices and the distribution of audit and accounting duties between them have been described in Chapter 5. The arrangements for the conduct of work within these offices are briefly indicated in this chapter.

**350. *Arrangements in the Civil Audit Offices.***—In a Civil Audit office, the actual audit, accounting, correspondence and other work is distributed among a number of different sections in accordance with the nature of the work concerned. The inward correspondence, accounts, vouchers and other receipts of an office are sorted in a Routine Section and distributed to the sections whose duty it will be to deal with them.

**351.** A Section which is called the Central Treasury Section receives the district accounts of all treasury transactions whether pertaining to the Central or to the Provincial Government. In this Section one clerk known as the district auditor is responsible for the adjustment of the entire treasury accounts of a district relating to Central and Provincial transactions. He is also responsible for the audit of these accounts with the exception of the transactions which are entered by the treasury in separate schedules of receipts and payments as relating to a particular department or to a particular major head of account not affecting a particular department. The audit of these departmental and other receipts and payments and their adjustment under the proper heads of account and also the consolidation of the departmental figures are entrusted to clerks known as departmental auditors attached to Treasury Departmental Sections. For the sake of convenience, however, some special classes of vouchers such as those relating to gazetted Government servants are made over to separate Sections which are constituted to deal with the audit of such classes of vouchers and with the connected correspondence and other incidental work. Such vouchers after audit are returned by the special Sections to the Treasury Departmental Sections.

**352.** After the departmental schedules and all the vouchers relating to them have been audited and the transactions recorded in the audit registers where necessary, the departmental auditors compile the departmental abstracts from these schedules and vouchers, while the district auditor classifies under the proper heads of account the transactions relating to Debt and Remittance heads from the List of Payments and the Cash Account after these have been audited. Some transactions under Debt and Remittance heads also appear in the departmental and other abstracts. The transactions under these heads appearing in all the accounts, abstracts, etc., are consolidated for the whole account circle in the Detail Book separately for Central and Provincial transactions.

**NOTE.**—In some cases audit is conducted after compilation (see paragraph 87).



**353.** In some offices a Pre-audit Pay Department deals with the bills payable at headquarters, which are usually audited before payment by the Audit Sections concerned. The paid bills are sent to the Departmental Sections with schedules and are handled there in the same way as vouchers received with a treasury account.

**354.** Officers of the Public Works Department, who make payment of bills direct for work done, submit classified accounts to the Audit office. These are received and audited in the Works Audit Section and are then consolidated into a single abstract for the whole account circle separately for Central and Provincial transactions. Similarly, for Forest and some other departmental transactions, classified accounts are rendered to the Audit office, which, after audit, are consolidated into a single abstract for each department for the whole account circle.

**355.** From the compilations thus separately made by the several Sections the final compilation for the whole circle of accounts is made in the Book Section, which also prepares the Journal and Ledger (see Chapter 38).

**356.** In addition to the Sections mentioned above, there is a Section for dealing with Exchange Accounts and accounts of Inter-Government transactions, one for dealing with the Budget and one for conducting Appropriation Audit. Some offices have a separate Report Section which prepares the Report on the Appropriation Accounts and the Finance Accounts.

NOTE.—The organisation described above differs in certain details in the case of the offices of the Accountant General, Pakistan Revenues, and the Audit Officer, Industries, Supply and Food.

**357. Arrangement in the Posts and Telegraphs Audit Offices.**—In Posts and Telegraphs Audit offices the arrangement for the conduct of audit and accounting work follows, *mutatis mutandis*, the lines described in paragraphs 350 to 356 above. Detailed information will be found in the special Manuals of Procedure for those offices.

**358. Arrangement in other Audit Offices.**—The Railway and Defence Services Audit offices are differently organised to suit the requirements of their work, which is the test audit of the work done by the departmental officers. The actual arrangement of work conducted by these Audit offices is described in the respective Office Manuals.

**359. Inspections.**—The Civil and Posts and Telegraphs Audit offices are inspected by a staff of Inspection Accountants appointed by the Auditor General. The Inspection Accountant inspecting an office is regarded as an independent agency placed for the time being at the disposal of the head of the office to enable him to satisfy himself that his responsibility for the efficient working of his office is being fully and consistently discharged.

**360. Audit and Account Procedure.**—The work in connection with the audit and compilation of accounts is conducted in accordance with the directions of the Auditor General set out in the Codes and Manuals issued by him. All rules and orders of a local character relevant to the duties to be performed by an Audit office are incorporated in the Manuals of the office concerned.



## CHAPTER 23.

**The Acts, Codes and Regulations, etc., used in Audit Offices.**

**361. General.**—The Acts, Codes and Regulations, etc., which are used in Audit offices may be divided broadly into the following classes :—

- (1) Acts of Parliament.
- (2) Orders of the Governor-General.
- (3) Acts of Central and Provincial Legislatures.
- (4) Rules made by the Governor-General and Governors of Provinces :
  - (a) Service Rules.
  - (b) Treasury Rules.
  - (c) Financial Rules.
- (5) Subsidiary or Procedure Rules.
- (6) Account Codes.
- (7) Audit Code and Manual.
- (8) Auditor General's Manual of Standing Orders.
- (9) Local Manuals of Accountants General.

**362. Acts of Parliament.**—The basis of the Pakistan Constitution and therefore the basis of all audit is the Government of India Act, 1935 (Adapted) : it provides specifically for the Auditor General of Pakistan and his powers. Further, the Act contains all the fundamental financial provisions and also prescribes the various authorities competent to issue rules and regulations.

**363. The Sections of the Act from which the more important rules and regulations originate, the nature of those rules and regulations and the authorities which may make them, are indicated briefly below—**

- (i) Section 151 (1) of the Act enables rules to be made by the Governor-General and by the Governor of a Province for the purpose of securing that all moneys received on account of the revenues of the Central Government or of the Province, as the case may be, shall, with such exceptions, if any, as may be specified in the rules, be paid into the Public Account of the Central Government or of the Province. This Section further provides that the rules made thereunder may prescribe, or authorise some person to prescribe, the procedure to be followed in respect of the payment of moneys into the said Account, the withdrawals of moneys therefrom, the custody of money therein and *any other matters connected with or ancillary to the matters aforesaid*. The closing words of the Section (italicised here) have been held to be sufficiently wide to attract the provisions of any rule or order which regulates the treatment of Government moneys even before their receipt into, or after their withdrawal from, a treasury



or the Bank. The main rules and the procedure rules which have been or will be issued by the respective authorities under this Section are called the "Treasury Rules and Subsidiary Rules issued thereunder" (*vide* paragraph 376).

- (ii) Section 168 of the Act confers powers on the Auditor General of Pakistan to prescribe with the approval of the Governor-General the form in which the accounts of the Central Government shall be kept and to give, with like approval, any direction with regard to the methods or principles in accordance with which any accounts of Provinces ought to be kept. It has been held that the power to prescribe the form in which accounts shall be kept includes the power to prescribe the methods and principles according to which accounts are to be kept. Thus, for practical purposes, the Section enables the Auditor General to issue, with the approval of the Governor-General, an Account Code containing a common set of directions applicable to the accounts of both Central and Provincial Governments (*vide* paragraphs 379 to 383).
- (iii) Section 166 (3) of the Act provides that the Auditor General shall perform such duties and exercise such powers in relation to the accounts of the Central Government and of the Provinces as may be prescribed by, or by rules made under, an Order of the Governor-General. From this provision emanates the Pakistan (Audit and Accounts) Order, 1952, which enables the Auditor General to issue the Audit Code and Manual regulating audit procedure (*vide* paragraphs 384 to 386).
- (iv) Section 241 of the Act prescribes that except in cases expressly provided otherwise by the Act, rules laying down conditions of service shall be made by the Governor-General or by some person or persons authorised by him in the case of persons serving in connection with the affairs of the Central Government, and by the Governor of a Province or by some person or persons authorised by him in the case of persons serving in connection with the affairs of the Province.
- (v) Lastly, implicit in the provisions of Sections 17 (3) and 59 (3) which authorise the Governor-General and the Governor of a Province respectively to make rules for the more convenient transaction of the business of the Central and the Provincial Government, is the power to issue financial and administrative rules or to authorise the Finance or other Ministry of Government to issue such rules. These rules will *inter alia* include the powers of incurring expenditure to be exercised by the various authorities.

**364.** Deleted.

**365.** Besides the Government of India Act, 1935, there are certain other Acts of Parliament, *e.g.*, the Interpretation Act, 1889, which continue in force in Pakistan.



**366. Orders of the Governor-General.**—Next in importance to the Government of India Act, 1935, is the compilation containing the Orders of the Governor-General.

**367.** Of the Orders of the Governor-General the one with which the Audit Department is most intimately concerned is the Pakistan (Audit and Accounts) Order, 1952, which deals with (i) the conditions of service of the Auditor General, (ii) his duties and powers as regards accounts, and (iii) his duties and powers as regards audit. Other Orders made by Governor-General which are more frequently used in Audit offices are the Governors' Allowances and Privileges Order, the Federal Court Order and the High Court Judges Order, the last one replacing the old High Court Judges Rules.

**368.** A few of the Orders contain provisions for the issue of further rules by other authorities. For example, paragraph 11 (3) of the Audit and Accounts Order empowers the Governor-General to make after consultation with the Auditor General, provision by rules relieving the Auditor General from responsibility for keeping accounts of any particular class or character ; and the Governor-General has under this authority issued the rules known as the "Initial and Subsidiary Accounts Rules".

**369. Deleted.**

**370. Deleted.**

**371. Deleted.**

**372. Acts of Central and Provincial Legislatures.**—Under the provisions of the Act and the Orders the Central and the Provincial Legislatures have power to make laws on the subjects and under the limitations therein specified. These Acts of the Legislatures in so far as they relate to financial or quasi-financial matters are used in Audit offices.

For instance the Legislatures in Pakistan are authorised to determine by Acts the salaries and allowances of—

Ministers ;

Presidents and Deputy Presidents of Councils ;

Speakers and Deputy Speakers of Assemblies ;

Members of Assemblies.

**373.** All the laws in force in British India or part of British India immediately before the partition continue in force until altered, replaced or amended by a competent Legislature or other competent authority, subject to such adaptations and modifications as Governor-General may direct.

**374. Rules of the Governor-General and Governors of Provinces.**—The rules made or to be made by the Governor-General and the Governors may for the present purposes be divided into three classes, namely, Service rules, Treasury rules and Financial rules, which are described in the succeeding paragraphs.



**375.** Under Section 241 of the Act, the Governor-General and the Governors are authorised to determine conditions of service in respect of persons under their rule-making control. The Central and Provincial Governments have generally issued their own compilations of Service rules.

**376.** Under Section 151 (1) of the Act the Governor-General and the Governors of Provinces have already issued the Treasury rules which as contemplated by the Section authorise the Finance Ministers to issue subsidiary rules.

**377.** Deleted.

**378.** Deleted.

**379.** *Account Code.*—The directions which have been issued by the Auditor General with the approval of the Governor-General in pursuance of Section 168 of the Act have been compiled into an Account Code consisting of four separate volumes, namely,—

Volume I—General Principles and Methods of Accounts,

Volume II—Treasury Accounts,

Volume III—Departmental Accounts,

Volume IV—Accounts kept in Account Offices.

**380.** Volume I of the Code, besides describing the functions of the Auditor General in relation to Government accounts and the general outlines of the system of these accounts, sets out the main directions applicable to the various departments of both Central and Provincial Governments. The List of Major and Minor Heads of Account of Central and Provincial Receipts and Disbursements, which for the sake of convenience has been printed separately, forms an Appendix to this volume. Another Appendix to this volume contains the Incidence rules which are based on arrangements made between the different Governments by mutual agreement, but being of the nature of financial-*cum*-accounting rules have been included in this Code.

**381.** Volume II of the Code contains the directions relating to the initial accounts kept by treasuries and the form in which accounts are rendered by them to the Audit and Account offices. For the sake of convenience the directions regarding accounts of Small Coin Depots have been included in this volume.

**382.** Volume III contains the Auditor General's directions regarding the initial and subsidiary accounts kept by Public Works and Forest Department officers and the accounts rendered by these officers to Audit and Account offices. It also indicates how the forms of accounts to be kept and rendered by other departments will be determined.

**383.** Volume IV contains instructions mainly relating to the form in which accounts have to be kept in Account offices under the control of the Auditor General and the procedure to be adopted in keeping them. For the sake of convenience the instructions relating to the preparation of certain *pro forma* accounts of the Public Works Department, which are not mandatory in character but can, in consultation with the Auditor



General, be modified by Governments to suit local requirements have been included in this volume.

**384. *Audit Code and Manual.***—By virtue of the power inherent in the provisions of paragraph 13 and other relevant provisions of the Audit and Accounts Order, the Auditor General has issued an "Audit Code" which sets out all essential audit principles and rules and directions regarding audit of expenditure and of other transactions and accounts for which he is responsible under that Order. The functions which have been entrusted to the Auditor General under certain Sections of the Act and orders issued thereunder, *e.g.*, Section 144 (1), as well as the audit functions which the Auditor General has assumed on a "consent" basis have for the sake of facility of reference been included in this Code. Similarly, the regulations for the audit of accounts of receipts and accounts of stores and stock which have been made by the Governor-General and Governors of Provinces after consultation with the Auditor General have for the sake of convenience been incorporated in this Code as Appendices.

**385.** Less important instructions and regulations governing audit procedure have been compiled in an "Audit Manual". The instructions embodied in this Manual are intended primarily for the guidance of the Civil Audit offices, but they should be taken as a guide in other Audit offices though in matters of detail the rules contained in the respective Codes and Manuals of those offices will apply. In some cases the connected accounts procedure which ordinarily ought to have been included in Volume IV of the Account Code has, for facility of reference, been set out in the Manual.

**386.** Another compilation connected with audit is the "Manual of Audit Instructions" containing authoritative interpretations given by the Auditor General in consultation with competent authorities of the rules and orders made by various authorities. The instructions contained in the last reprint of the Manual have reference to the rules and orders in force immediately before the commencement of Part III of the Act, and they should be observed so long as those rules and orders continue in force by virtue of the provisions of Section 276 of the Act.

**387.** In addition to the three publications mentioned in the preceding three paragraphs, there are the "Concordats" mentioned in paragraph 341. Though the Concordats and the connected instructions are not published documents, copies of them are available in each Audit office and their terms must be strictly observed in practice.

**388. *Auditor General's Manual of Standing Orders.***—The instructions relating to the organisation, administration and control of the Pakistan Audit Department which were previously scattered in several codes have now been brought together in a single compilation called "Auditor General's Manual of Standing Orders". For convenience of reference the Administrative and financial powers of the Auditor General and the financial powers of Accountants General have been set out in this Manual. As these are based on the rules in the Book of Financial Powers and other rules and orders issued by the Central Government from time to time, reference should be made in all cases of doubt to the original rules and orders themselves.



**389. Local Manuals of Accountants General.**—The instructions relating to the internal administration of an Accounts and Audit office are embodied by each Accountant General in a "Manual of Office Procedure". All orders determining and affecting the day to day work of his office and general matters of information useful to his staff in their daily work are incorporated in it.

**390. Other Local Manuals** collecting important and useful orders of local character and general instructions issued from time to time by each Accountant General for the guidance of Treasury and Disbursing Officers are also prepared and maintained as required by him in such form as he may consider suitable.

**391. Deleted.**

**392.** In respect of matters in which the Governor-General may require the Governors or Governments of Provinces to discharge certain functions as his agents (*vide* Section 124 of the Act) the Governor-General has a right to issue what have hitherto been called "Agency Rules". Such rules are now not intended to be regarded as a distinct class by themselves and have been issued either as subsidiary rules under the Treasury rules or as Financial rules of the Central Government.

**393.** In the case of certain technical departments such as the Posts and Telegraphs, Customs, Salt, etc., the existing departmental codes or manuals which contain both the financial and accounts rules, continue to be used in so far as they are not inconsistent with the general provisions of the Treasury and Financial rules of the Central Government or the Account and Audit Codes and Manuals issued by the Auditor General.

Similarly, in the case of the Railway and Defence Departments for the keeping of the accounts of which the Auditor General is not responsible the departmental Financial and Account Codes or Manuals continue to be in force subject to such adaptations and modifications as may be authorised by competent authority.

For the regulation of pay, allowances, pension, etc., of the personnel of the Defence Department other than the civil personnel, there are separate sets of rules and orders issued under the Army Act and the civil personnel in the Defence Department continue to be governed by the substantive rules in the Civil Service Regulations.



**CHAPTER 24.****Remuneration of Gazetted Government Servants and of Establishments.****A.—GENERAL.**

**394. Pay Bill.**—A pay bill is the descriptive name given to the bill drawn for pay and fixed allowances or leave salary of gazetted or non-gazetted Government servants.

The essential points to be observed in the audit of pay bills are—

- (a) to check the title of the Government servant to the remuneration drawn by or for him, and
- (b) in the case of Government servants whose remuneration is drawn for them, to verify that they receive the remuneration to which they are entitled.

**B.—REMUNERATION OF GAZETTED GOVERNMENT SERVANTS.**

**395. Pay Bills of Gazetted Government Servants.**—Each gazetted Government servant is permitted to draw his pay month by month on a separate bill. Some non-gazetted Government servants (as for example, Tehsildars, Sub-assistant Surgeons, etc.), who belong to establishments fixed with reference to the requirements of a whole Province, are also allowed to draw their pay on separate bills. The form of the bill needs little description. The essential details are the same as those contained in the authority (called pay slip) issued to the drawer by the Audit Officer. This is described in the concluding portion of paragraph 399.

**396.** A gazetted Government servant is so called because the orders intimating any change in his posting or status or the grant of leave to him are contained in the Government Gazette.

**397. Audit of Pay Bills of Gazetted Government Servants.**—The system of audit adopted for such bills, for check of the title to the remuneration drawn, is as follows :—

All payments are recorded in an audit register in which one or two folios are allotted to each Government servant. The main features of this register are two sets of cages, in one of which are entered the emoluments to which the Government servant is entitled, as varied from time to time by each order published in the Government Gazette or otherwise communicated, and in the other are recorded the amounts drawn by him month by month. There are subsidiary cages for the record of—

- (a) orders authorising each alteration of emoluments ;
- (b) particulars of the various posts held, or of any leave granted ;
- (c) explanations of (i) peculiar payments which would include any payments not immediately identifiable by reference to the entry in the emoluments column, and (ii) broken periods for which emoluments are paid at different rates ;
- (d) particulars of objections raised and their adjustment ;
- (e) adjustment of long term advances.



398. It is apparent that the most important part of the audit is the record of each entry in the cages for emoluments permissible. Each alteration must be based on an order published in the Government Gazette or otherwise communicated, and the various audit rules have to be applied carefully in determining the emoluments permissible in accordance with the orders passed by Government. Every alteration of emoluments, therefore, has to be passed by the gazetted officer in charge of the Section. At the same time an intimation is sent to the Government servant concerned, and to the officer in charge of the treasury at which he draws his pay, specifying the amount which he may draw in accordance with the order of Government. This intimation is called a "pay slip".

399. *Increments on Time-scales of Pay.*—An increment on a time-scale of pay can be drawn as a matter of course, unless it is withheld by special orders or an efficiency bar is reached. It is therefore unnecessary to notify the grant of ordinary increments either in the Gazette or otherwise. The pay slip is so worded that it remains in force for a considerable time, as in the following form :—

Mr.....is informed that under order No.....  
dated.....(Gazette page.....), he is entitled to draw pay  
and allowances at the monthly rates shown below from the dates specified :—

#### *Details of calculation.*

	From	From	From	From
Substantive pay	...	...	...	...
Officiating pay	...	...	...	...
Overseas pay	...	...	...	...
Special pay	...	...	...	...
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
.....	.....	.....	.....	.....
Total	...	...	...	...

The scale of pay is.....Increment accrues on.....every year and, in the absence of instructions to the contrary, this may be drawn till the stage of\*.....is reached.

\*Here state the stage at which a pause or an efficiency bar operates.

400. A fresh slip is issued on the following occasions :—

- (i) whenever any increment is stopped ;
- (ii) whenever a pause or an efficiency bar, or any other bar against the grant of a particular increment, is removed ; and
- (iii) whenever there is a change of any kind in emoluments, otherwise than by accrual of an increment in the ordinary course.

401. *Scale Register.*—The orders affecting the cadre of a Service passed by Government have first to be checked by the Audit office and it has to be seen that they are free from objection. In some Provinces it is the custom for Government to send the orders in draft to the Audit



office so that they may be checked before issue. The main portion of this check is carried out by means of a scale register in which is recorded the number of posts sanctioned in each grade or class of the Service and of the Government servants on duty month by month in each grade or class. The entries in this register have to be revised whenever an event occurs which takes a Government servant out of, or brings him into, the scales, as for instance change of post, promotion, temporary duty, death, retirement, dismissal, resignation, departure on or return from foreign service, other duty, or leave. In the case of the Services in which the graded system has been abolished, a simplified scale register is used in which the total number of Government servants holding the sanctioned posts is revised only on the occasion of any change.

**402. *Sterling Overseas Pay.***—In respect of a gazetted Government servant claiming sterling overseas pay for the first time it is the duty of Audit to examine whether he is entitled to it according to the terms of the relevant rules. If the Audit Officer concerned is satisfied of the validity of the claim he will issue necessary authority for payment to the High Commissioner for Pakistan in the U. K. The bills for any subsequent claims on this account are audited in the same manner in Pakistan as rupee pay bills, and after audit and review authorisation of the payment of the claims is sent to the High Commissioner for Pakistan in the U. K. through a monthly statement. The High Commissioner, when once authorised to make payments at a certain rate, will continue to pay at that rate until he is advised to the contrary, and will verify the payments actually made against the amounts reported as due in the monthly statements received subsequently from the Audit Officers in Pakistan, any short or excess payment being settled after correspondence by subsequent payment or recovery.

**403. *Passage Accounts.***—A separate passage account, outside the Government accounts, is maintained in the Audit office for each Government servant and for each member of his family, who is eligible for the benefits of the passage concessions under the Service rules made by competent authority. These accounts are credited with the number of passages to which the Government servant, his wife and his children are entitled, and are debited with the cost of the benefits actually utilised. The balance, if any, remaining at the credit of any person in his or her personal passage account after such person has ceased to be eligible for any benefits under the relevant rules lapses.

**404. *Leave Account.***—For each gazetted Government servant a leave account is kept in the Audit office, showing the period during which the Government servant was on duty, the leave earned by him, the leave actually taken, and the balance at his credit. From the entries in the account it is possible to calculate the leave admissible to the Government servant on any given date.

**405. *History of Services.***—Finally, a history of services is maintained for each gazetted Government servant in which, are recorded his headquarters stations, substantive appointments, officiating appointments involving change of duties, dates of alterations of appointments, grants of leave of all kinds, and absence without leave or in excess of leave or joining time. Pension calculations are based on this record.



## C.—REMUNERATION OF ESTABLISHMENTS.

**406. Pay Bills of Establishment.**—The form of the pay bill of establishment is different from that of gazetted Government servants. It has columns in which are entered the name of each section and of each incumbent of a post and the name of each post in that section, and columns in which are recorded, in separate entries, the substantive pay, etc., the additional pay for officiating and the leave salary drawn for each incumbent. There are also columns for fund deductions, income-tax and miscellaneous recoveries. The officer signing the bill has to record certificates that pay previously drawn has been disbursed and receipts taken, that any leave granted was admissible, that all appointments and promotions have been recorded in the service books and, in cases where no absentee statement accompanies the bill, that no person in superior service has been absent on other duty or suspension or on leave. Except in the case of certain classes of establishment, the bill is accompanied by an absentee statement. In this statement are shown the name and designation of each absentee, his pay, the other duty on which he is employed, or his leave salary, as the case may be, the name, designation and pay of the officiating Government servant and the additional pay permissible for officiating.

**407. Audit of pay Bills of Establishment.**—The system of audit of establishment pay bills, is also different from that of gazetted Government servants' bills. The unit here is not the Government servant but the section of the office in which he is working. In the establishment audit register, therefore, the main columns are—

- (i) orders of sanctioning authority ;
- (ii) name of section ;
- (iii) sanctioned pay of section ;
- (iv) monthly columns, for record of the amounts drawn for the section month by month.

**408.** This method of audit is called sectional, while the method of audit applied to the bills of gazetted Government servants is called nominal. In reality it is not strictly sectional inasmuch as the pay sanctioned for each post in the section is recorded in a fly-leaf inserted between the pages of the audit register and the pay drawn is checked periodically with this detailed record.

**409. Audit of Pay Bills of Establishments on Time-scales of Pay.**—On the introduction of a time-scale of pay in an establishment it is of vital importance to scrutinise the calculations of the initial rate of pay and the date of next increment fixed for each Government servant borne on that establishment. On it depends the correctness of the pay to be drawn year after year until the Government servant is stopped at an efficiency bar or reaches the maximum of the time-scale. In such cases the head of the office should be required to submit to the Audit office a detailed statement showing the calculation of initial pay of each member of the establishment. When the initial rates are dependent to any extent on service they can be checked only with the service books which are with the head of the office. This work can therefore be best done at



local inspections. Where such inspections are not possible the service books have to be requisitioned by the Audit office for the necessary check.

410. For the purpose of audit, establishments on time-scales of pay fall under two groups,—(i) those for which an establishment return is received in the Audit office and (ii) those for which no such return is received in the Audit office.

411. For all establishments for which no annual establishment return is received, the audit will be by numbers only. When a sanctioned cadre contains its own leave reserve, the number entered in the audit register is the sum of the number of Government servants drawing duty-pay and of those drawing leave salary. Where officiating arrangements in leave vacancies are permissible, the number (i) drawing substantive pay, (ii) on leave and (iii) drawing officiating pay, is noted separately in the audit register, and the audit check consists in seeing that (i) *plus* (ii) and (i) *plus* (iii) are each within the sanctioned scale.

412. For all establishments for which an annual establishment return is received, the regular monthly audit will also be by numbers only, but this will be supplemented by a nominal check twice a year at irregular intervals to be fixed by the gazetted officer in charge in addition to the annual check with reference to the annual establishment return. The nominal check consists in comparing the rate of pay of each individual drawn in the bill with that recorded in the fly-leaf. Subject to the further instructions below, the instructions in paragraph 411 above apply in this case also.

- (a) In the audit of a bill it will first of all be necessary to check all the items in the bill corresponding to items in the absentee statement, and at this stage the admissibility of the leave salary and officiating pay of the men involved will come under audit. The auditor will next audit all items in the bill corresponding to the names entered in the increment certificate and make the necessary entries in the fly-leaf. Then the remaining items in the bill, against which there is something in the remarks column, should be audited and any changes affecting the fly-leaf incorporated therein.
- (b) The fly-leaf for April of each year should be checked with the annual establishment return which should include the *names* of all men holding temporary posts on the date to which it relates, with an indication of which of these are officiating in temporary and which in permanent vacancies.
- (c) When the increment claimed operates to carry a Government servant over an efficiency bar it should be seen that the claim is supported by a declaration from the authority empowered to allow the increment that it has satisfied itself that the Government servant in question is fit to pass the efficiency bar.
- (d) When leave salary is drawn in a bill it should be seen that the bill is supported by a statement duly attested by the drawing officer showing the calculation by which the amount of leave salary has been deduced. An arithmetical check of the



statement in the Audit office is ordinarily sufficient, reference to previous pay bills or other connected documents being made in doubtful cases only. The audit of the leave salary drawn for subsequent months in the same spell of leave should be conducted with reference to the statement received with the first bill.

- (e) In cases where only one name affecting a particular cadre appears in one bill, *e.g.*, cases of Sub-assistant Surgeons who draw their pay on separate bills, Inspectors of Excise, etc., the simplest audit amounts practically to a nominal audit and may be conducted in a simplified audit register.

#### D.—SERVICE RULES.

**413. General.**—The audit of pay, leave salary and other allowances admissible to the various classes of Government servants is conducted mainly with reference to the rules made by competent authority governing their conditions of service. These rules are referred to in this chapter as "Service rules".

**414.** Sometimes persons are employed on contracts which provide for special terms of service not consistent with the Service rules which would be applicable to them but for the contracts. Such contracts also provide that in respect of any matter for which no special provision has been made in the contract the ordinary rules shall apply. In such cases the Audit Officer regulates his audit in accordance with the special terms of the contract or the ordinary rules, as the case may require.

**415.** As will be seen from paragraph 363, the power to frame rules regulating the conditions of service of different classes of Government servants is under the Act vested in different authorities. A brief summary is given below of the more important of the relevant provisions of the Service rules which are applicable to Government servants under the rule-making control of the Governor General.

**416. Lien.**—The fundamental basis of a Government servant's emoluments is the amount fixed as the pay of the post he holds substantively. In this connection it is necessary to explain that, on substantive appointment to a permanent post, a Government servant acquires a right summarised in the word "lien", to hold that post substantively, either immediately or on the termination of a period or periods of absence.

**417.** The convention of the word "lien" can best be understood if it is explained that in respect of every permanent post there is one Government servant who has a prior right over every other Government servant. This one Government servant may be employed on other duty, in which case another may take his place; but, if the other duty comes to an end, he has right to return to the post on which he holds a lien, displacing his successor, unless his lien be transferred to some other post. The rules regarding the transfer of lien are so framed as to safeguard the interests of Government servants. For obvious reasons no Government servant substantively appointed may ordinarily be left without a lien on a permanent post.



418. If a Government servant is transferred from a permanent post which he holds substantively, a local\* Government shall in certain specified circumstances, and may in other specified circumstances, suspend his lien on the post and may fill it substantively, subject to the condition that the arrangement thus made will be reversed on the return of the Government servant in question.

419. *Pay.*—It will thus be understood that the pay admissible to a Government servant has to be determined either with reference to the post on which he holds a lien or with reference to some other post. The term "pay" includes overseas pay, technical pay, special pay and personal pay, and any other emoluments which may be specially classed as such by a competent authority. Overseas pay is pay granted to a Government servant for serving in a country other than the one of his domicile. Special pay is an addition to pay granted either for the specially arduous nature of the duties or for specific addition to work or responsibility or for the unhealthiness of the locality in which the work is performed. Personal pay is an addition granted either to save a Government servant from loss of substantive pay in certain circumstances or, in exceptional circumstances, on other personal considerations.

420. *Pay on a Time-scale.*—A Government servant appointed substantively to a post on a time-scale of pay generally draws as initial pay the minimum of the time-scale, except in cases in which the rules allow of his initial pay being calculated at a higher stage on the basis of his previous service or age or the substantive or officiating pay (excluding special pay or personal pay) which he has already been drawing in the same or another post.

421. A Government servant holding a post substantively who is appointed to officiate in another post may not draw pay higher than that of his substantive post except in certain specified cases or in the circumstances mentioned in the following paragraph.

422. A Government servant officiating in a post draws the pay to which would be entitled if he were appointed to that post substantively, subject to the condition that he may draw instead the pay to which he would be entitled in his permanent post if that be greater.

423. *Compensatory Allowances.*—A compensatory allowance is an allowance granted to meet personal expenditure necessitated by the special circumstances in which duty is performed. It includes a travelling allowance. A local Government may grant such allowances to any Government servant under its control and may also make rules prescribing their amounts and the conditions under which they may be drawn.

424. *Fees and Honoraria.*—Unless in any case it be otherwise distinctly provided, the whole time of a Government servant is at the disposal of the Government which pays him, and he may be employed in any manner required by proper authority, without claim for additional remuneration, whether the services required of him are such as would ordinarily be remunerated from the revenues of Government, from a local fund, or from the revenues of a Pakistan State.

\*The expression "local Government" is used in this and other paragraphs of this chapter in the sense in which it is used in the relevant Service rules.



425. A Government servant may be permitted by the general or special order of a competent authority, if it be satisfied that this can be done without detriment to his official duties or responsibilities to perform a specified service or series of services for a private person or body, or for a public body (including a body administering a local fund), or for a Pakistan State, and to receive as remuneration therefor, if the service be material, a non-recurring or recurring fee.

426. A Government servant may be granted an honorarium from the revenues of Government as remuneration for work performed which is occasional in character and either so laborious or of such special merit as to justify a special reward. Except when special reasons, which should be recorded in writing, exist for a departure from this provision, an honorarium should not be granted unless the work has been undertaken with the prior consent of the sanctioning authority and its amount has been settled in advance.

427. A local Government may make rules fixing the amounts which may be sanctioned by the authorities subordinate to it for acceptance by a Government servant as honoraria, and specifying the conditions under which they may be granted.

428. *Leave Rules.*—The leave rules which are applicable to the Government servants subject to the rule-making control of the Governor General to whom the rules mentioned in the next paragraph do not apply are divided into two classes, —special leave rules and ordinary leave rules. The conditions governing admission to the benefits of the special leave rules and the main features of the two sets of leave rules and the differences and resemblances between them must be studied in the rules themselves.

429. A separate set of leave rules has been framed for Government servants subject to the rule-making control of the Governor General, who entered service on or after 16th July 1931 and who are of Asiatic domicile or, if of non-Asiatic domicile, have not been specially recruited overseas for service in Pakistan. These rules are known as the "Revised Leave Rules, 1933". The various kinds of leave admissible under these rules, the conditions for their grant and the leave salaries admissible must be studied in the rules themselves.

Paragraphs 430 to 436 below refer only to the leave rules mentioned in paragraph 428.

430. *Leave Salary.*—The rules also prescribe the periods for which and the conditions under which a Government servant is entitled, during periods of leave due, to average pay, half average pay, or quarter average pay. Certain monthly *maxima* and *minima* are fixed to which these averages are subject. These limits are prescribed in rupees and in sterling, the rates being applicable to leave salaries paid respectively in rupees and in sterling under the principles stated in paragraphs 432 and 433.

431. *Average Pay.*—Average pay is the average of the monthly pay earned during the twelve complete months immediately preceding the month in which the event occurs which necessitates the calculation of average pay; and the calculations of half average and quarter average pay are made on the same basis.



432. *Drawing of Leave Salary.*—The portion of leave salary representing sterling overseas pay should be paid in all cases in sterling. Subject to this condition leave salary is payable in rupees if due in respect of leave spent in Asia, and in sterling if due in respect of leave spent out of Asia. As an exception to this, a Government servant may draw leave salary in sterling in respect of an initial period of the first four months of leave on average pay, whether taken by itself or in combination with other kinds of leave, although he spends such leave in Asia, provided that he proceeds out of Asia during the currency of such leave or within one month of its termination. Similarly, leave salary due in respect of an initial period of such leave spent out of Asia may if desired be drawn in rupees. In the case of leave of any other description, or of periods of leave on average pay after the first four months of such leave, leave salary in respect of the whole of such leave may be drawn in sterling provided that the amount of such leave spent in Asia prior to embarkation does not exceed one month.

433. Leave salary drawn in rupees must be drawn in Pakistan. Leave salary drawn in sterling must be drawn in London, or at the Government servant's option, in any British Dominion or Colony prescribed by the Governor-General, provided that the Government servant spends his leave in the Dominion or Colony in which he has elected to draw his leave salary.

434. *Leave Account.*—For each Government servant a leave account is maintained, in terms of leave on average pay, in which all periods of leave earned are credited and all periods of leave taken are debited. The amount of leave due to a Government servant is the balance at his credit in the leave account.

435. *Grant of Leave not due.*—Leave not due may be granted in certain specified circumstances. Such leave is debited in the leave account, and is intended to be regarded as an advance of leave, and its grant should therefore be limited to the amount that both (a) can be and (b) is expected to be earned by subsequent duty; further, it is meant to be granted only in exceptional circumstances, such as illness or urgent private affairs. When the exceptional step of granting such leave is taken it should be irrevocable, except at the request of the Government servant, who should not be penalised if reasonable anticipations fail to materialise. During such leave a Government servant is entitled to leave salary equal to half average pay.

436. *Extraordinary Leave.*—In special circumstances, when no other leave is by rule admissible or when (other leave being admissible) the Government servant concerned applies in writing for the grant of extraordinary leave, extraordinary leave may be granted. Such leave is not debited against the leave account, and no leave salary is admissible in respect of it.

#### E.—ALLOCATION OF LEAVE SALARIES AMONG DIFFERENT GOVERNMENTS.

437. *Rules of Incidence.*—The charges on account of leave salaries of Government servants who have served under more than one Government are distributed among the Governments concerned in accordance



with the rules of incidence accepted by them. These rules are set out in an Appendix to the Account Code, Volume I. The broad principle underlying these rules is that when a Government servant is transferred to service under a Government other than that under which he was first employed, the leave salary drawn by him during any leave taken after the date of transfer is debited to the borrowing Government until the entire leave earned under that Government has been exhausted, irrespective of whether the leave is taken while the Government servant is actually serving under the borrowing Government or not. Departures from or modifications of this principle have, however, been permitted in certain classes of cases specified in the rules.

125. *Leave salary drawn in rupees* must be drawn in Pakistan. Leave salary drawn in sterling must be drawn in London or in the Government servant's option, in any British Dominion or Colony provided by the Government-General provided that the Government servant spends his leave in the Dominion or Colony in which he has elected to draw his leave salary.

126. *Leave account*—For each Government servant a leave account is maintained in terms of leave on average pay, in which all periods of leave earned are credited and all periods of leave taken are debited. The amount of leave due to a Government servant is the balance at the credit in the leave account.

127. *Grant of leave not due*—Leave not due may be granted in certain specified circumstances. Such leave is debited to the leave account and is treated as an advance of leave and the grant thereof is subject to the condition that the leave so granted shall be repaid to the Government within a specified period. When the specified period of granting such leave is reached it should be repayable, except at the request of the Government servant who should not be permitted if repayment is not made. During such leave a Government servant is entitled to leave salary equal to his average pay.

128. *Exhaustive leave*—In special circumstances, when no other leave is by rule admissible or when (other leave being admissible) the Government servant concerned applies in writing for the grant of exhaustive leave, extraordinary leave may be granted. Such leave is not debited against the leave account, and no leave salary is payable in respect of it.

E.—*Allocation of leave salaries among borrowing Governments*

129. *Rule of incidence*—The charges on account of leave salaries of Government servants who have served under more than one Government are distributed among the Governments concerned in accordance



## CHAPTER 25.

## Travelling Allowance.

**438. Rules applicable to different Classes of Government Servants.—**

(a) Deleted.

(b) The Governor-General in his discretion has power to frame such rules in respect of members of His Majesty's forces and also of the persons who, not being members of His Majesty's forces, hold or have held posts in Pakistan connected with the equipment or administration of these forces or otherwise connected with defence.

(c) Journeys of high officials and the grant of any allowance to cover expenses of travelling of such officials are governed by the provisions of the relevant Orders, or by Acts of the appropriate Legislature, etc.

(d) In all other cases the Governor-General or the Governor, as the case may be, has full power to frame rules regulating the grant of travelling allowance.

**439.** The Governor-General and Governors of Provinces have framed travelling allowance rules to cover the circumstances of the different classes of journeys which a Government servant may have to perform, as for example,—

- (i) on tour ;
- (ii) on transfer ;
- (iii) to a hill station, and in recess ;
- (iv) to attend an examination ;
- (v) when proceeding on or returning from leave ;
- (vi) on retirement, dismissal, or termination of appointment ;
- (vii) to give evidence ;
- (viii) to obtain medical advice ;
- (ix) to attend an incapacitated Government servant or a member of his family ;
- (x) on a course of training ;
- (xi) to attend a durbar or levee.

The various sets of rules so framed differ considerably from one another.

**440. Rules framed by the Governor-General for Journeys on Tour.—**

A brief summary of the travelling allowance rules framed by the Governor-General to govern journeys on tour is given in paragraphs 441 to 450. It is not possible to give in this Compilation particulars of the rules governing all classes of journeys mentioned in the preceding paragraph.

**441. Classification of Government Servants.—**For the purpose of calculating travelling allowance, Government servants are divided into four grades. The main criterion for classification is the pay drawn by the Government servant. The lowest grade comprises persons in class IV service.



**442. Daily Allowance.**—The main item of travelling allowance is the daily allowance, that is to say, the amount which a Government servant draws each day on which he travels on duty more than 5 miles away from his headquarters. This allowance is ordinarily not admissible for more than 10 days of a halt at one place. This restriction is based on the ground that expenses usually decrease as the length of a halt increases, and ensures due expedition in a journey. Certain Government servants are, however, allowed general or individual exemptions from this restriction when prolonged halts are necessary in the interest of the public service and entail extra expense.

**443. Mileage.**—A Government servant is allowed to draw mileage instead of daily allowance when he travels by railway or steamer more than 20 miles by road, or when he travels by road in continuation of a rail or steamer journey, in which case the mileage is limited to the amount of daily allowance unless the journey by road exceeds 20 miles.

**444.** The scales of daily allowance and mileage are fixed according to the grades of Government servants.

**445. Rates for Journeys by Rail and Steamer.**—When travelling by railway, a Government servant of any of the first three grades is allowed for the journey, instead of daily allowance,  $1\frac{1}{2}$  the fare of the class in which he is entitled to travel according to the grade into which he falls for the purpose of travelling allowance. When travelling by steamer he is similarly allowed, instead of daily allowance,  $1\frac{3}{5}$  the fare of the class in which he is entitled to accommodation according to his grade. In cases where a steamer company has two rates of fare, one inclusive and the other exclusive of diet, the allowance admissible is  $1\frac{3}{5}$  the fare exclusive of diet. A class IV servant is allowed a single fare of the lowest class and in addition ordinary daily allowance when travelling by rail and double the rate of daily allowance when travelling by steamer.

**446. Rates for Journeys by Air.**—A Government servant authorised to travel by air is allowed the fare paid for the journey by air and, if actually paid, the cost of transporting luggage up to three maunds by rail at passenger rates or by road or steamer, and a railway or steamer fare of the lowest class for one servant. For any connected journey by rail, road or steamer (other than surface transport which forms part of the air journey) he may draw the mileage allowance admissible for such journey under the ordinary rules.

**447. Rates when Government supplies means of locomotion.**—A Government servant of any of the first three grades who uses a means of locomotion provided at the expense of Government, of a local fund, or of a Pakistan State, but pays all the cost of its use or propulsion, draws the travelling allowance ordinarily admissible for the journey subject only to the deduction of such hire as may be determined by rule. If the cost of such use or propulsion is not paid by the Government servant he is allowed only the daily allowance. If part of the journey is made by other means of locomotion he may exchange the daily allowance for the mileage admissible for that part. If the Government servant has to provide conveyance for his servants or luggage, he is allowed in case the journey is by road exceeding 20 miles or is a road journey combined with a journey by rail or by sea or river steamer, to exchange his daily



allowance for half the mileage allowance calculated for such journey and to draw in addition the mileage allowance admissible for any part of the journey made by other means of locomotion.

448. If a Government servant travels by a motor car supplied to him at the expense of Government, he may draw—

- (a) if he travels by the motor car more than 20 miles in one day, the mileage allowance of his grade for the first 20 miles, and three-fourths of that rate for the remainder of the journey ;
- (b) if he combines with a journey by the motor car a road journey by other conveyance, he may draw the mileage allowance admissible for the first 20 miles or for the journey by other conveyance, whichever is greater, and for the remainder of the journey three-fourths of such mileage allowance ;
- (c) if he combines with a journey by road, whether made wholly or partly in the motor car, a journey by railway or steamer he may draw mileage allowance for the journey by railway or steamer in addition to the allowances admissible under clauses (a) and (b) above for the journey by road.

449. *Permanent Travelling Allowance.*—When Government servants are employed on duties which involve extensive touring, permanent monthly allowances are sometimes granted in lieu of all other travelling allowances for journeys within their circle of duty. Such allowances are given all the year round whether the Government servants are on tour or not.

The substitution of permanent travelling allowance for all other allowances does not relieve the controlling officers from the responsibility for watching that Government servants serving under them undertake all the journeys that they are expected to make.

450. *Conveyance Allowance.*—A modified form of permanent travelling allowance is the grant of a conveyance allowance to Government servants who have a large amount of travelling to do at or within a short distance from their headquarters for which travelling allowance is ordinarily inadmissible.

451. *Bill forms.*—Claims for travelling allowance are submitted on bills which are drawn up in such a way as to give all the information necessary to ensure proper check of the claims. Thus, they show the name of the Government servant, his headquarters, the purpose of the journey, the dates and, in some cases, hours of the journey, the route by which it is performed, the distance travelled by road (whenever it is necessary to enter this particular), railway fare, steamer fare, fare for journey by air, number of days of halt, etc. These bills are submitted in the first place to the controlling officer. Some controlling officers require the entry in the column "Purpose of journey" to be supported by diaries or journals indicating what the Government servants have done during each tour. After the controlling officer has countersigned the bill in token of his check, payment is obtained at the treasury.

452. *Audit.*—On its receipt in the Audit office the bill is audited either by the departmental auditor or in some cases in a separate section,



such as the special section for auditing the claims of gazetted Government servants. The travelling allowances drawn by gazetted Government servants are recorded in an audit register. No audit register is maintained for the travelling allowances of non-gazetted Government servants.

453. The main points to which attention is directed in the audit of travelling allowance bills are—

- (i) that the journey was actually performed ;
- (ii) that it was necessary, and authorised by general or special orders ;
- (iii) that it was performed as expeditiously as possible ;
- (iv) that no bill has been submitted for it before ; and
- (v) that the amount drawn is correct with reference to rates and general conditions.

454. As some of these checks cannot be exercised by an Audit officer independently, the duty of scrutiny of travelling allowance bills is divided between Controlling Officers and Audit Officers. It is an important function of Audit to conduct an occasional test check to see that the scrutiny entrusted to Controlling Officers under the rules of the Government in relation to these bills is exercised by them properly. This check can be carried out partly during local inspections (see Chapter 36), and partly in the Audit office, all the bills passed during a period of, say, six months being brought together and carefully scrutinised. A similar check may also be conducted in respect of the travelling allowance bills of Government servants who countersign their own bills.



## CHAPTER 26.

## Pensions.

455. *Introductory.*—As will be seen from paragraph 363, the power to frame rules regulating the pensions of different classes of Government servants is, under the Act, vested in different authorities. The sets of pension rules made by these authorities will naturally vary from one another, and Audit Officers will have to study carefully the rules applicable to the different classes of Government servants in order to apply them correctly in audit. The classes of pensions generally granted on retirement to Government servants belonging to the civil services, the procedure relating to the grant of such pensions and their payment at treasuries and the audit checks applied to the payments are briefly indicated in this chapter.

456. The rules made by the various rule-making authorities set out *inter alia* the several kinds of pensions admissible to Government servants, the conditions under which they are granted, and the method by which they are calculated.

457. Pensions granted to Government servants in respect of their service generally fall under one or the other of the following categories.—

Superannuation pensions.

Retiring pensions.

Invalid pensions.

Compensation pensions.

458. Government servants who have held certain special posts and have shown such special energy and efficiency as to deserve the concessions are granted special additional pensions at specified rates.

459. *Preliminary Verification of Service.*—Shortly before a non-gazetted Government servant is due to retire, a statement of his service with his service book is sent by the authority concerned to the Audit Officer for comparison with the records in his office. The main record in the Audit office with which the statement is compared is the annual establishment return which has to be submitted by every head of office to the Audit office where it is checked with the sanctions recorded in the audit register. This preliminary verification is made in order to facilitate the check of the formal application which has to be made when a Government servant retires, so that there may be as little delay as possible in the issue of orders granting the pension, and to ensure that no one inadvertently retires before he is entitled to a pension.

A gazetted Government servant whose whole service has been rendered in gazetted posts is not required to submit any preliminary statement for verification, or any detailed statement of his service with his formal application, inasmuch as full details are entered in the History of Services, for the preparation of which the Audit office is responsible.

460. *Anticipatory Pensions.*—When a Government servant retires before the necessary enquiries preliminary to the settlement of the amount of his pension are completed, the Audit Officer may, if the rules



so permit and subject to the conditions prescribed in the rules, arrange for the immediate disbursement of the pension to which, after the most careful summary investigation that he can make without delay, he believes the Government servant likely to be entitled. The pension thus summarily assigned is called an anticipatory pension.

No undue delay should occur in the final settlement of the amount of pension in such cases. If the amount finally settled be found to differ from the amount of the anticipatory pension, the difference should be adjusted in subsequent payments. When the final pension is sanctioned the order issued for payment of the anticipatory pension should be recalled.

**461. Authority for Disbursement of Pension.**—Ordinarily, no pension is sanctioned until the Audit Officer has verified that the qualifying conditions are fulfilled and certifies that the amount which it is proposed to sanction is permissible under the relevant rules. A copy of the order of sanction is forwarded by the sanctioning authority to the Audit Officer. The Audit Officer checks the correctness of the pension sanctioned by comparing the order with his report. When a pension is sanctioned without previous reference to the Audit office, the Audit Officer on receipt of the order has to see that the amount sanctioned is correct and that the rules governing the grant of the pension have been properly applied.

**462.** If the pension is payable in Pakistan, the Audit Officer after satisfying himself that the sanction is in order issues or arranges to issue to the officer who is to pay the pension authority to make the payment; such authority is known as Pension Payment Order. Pension Payment Orders are issued in duplicate; the original bearing the pensioner's signature and other particulars is retained by the disbursing officer and the duplicate is made over by him to the pensioner.

**463.** If the pensioner wishes to draw his pension in United Kingdom, the Audit Officer issues a last pay certificate and forwards to the High Commissioner for Pakistan in U. K. a duplicate of this with a copy of the first page of the application for pension and of the order granting the pension.

**464.** Similarly, the pension of a pensioner residing in any British Dominion, Colony or Protectorate may be paid there. In this case the Audit Officer issues a Colonial (Pension Payment) Warrant in triplicate. The original bearing the payee's signature is forwarded to the Colonial authority concerned, the duplicate is sent to the High Commissioner for Pakistan, and the triplicate is made over to the payee.

✓ **465. Method of Pension Payment and Identification of Pensioner.**—With the exception of the pensions of the Posts and Telegraphs personnel which are paid at Post Offices, pensions payable in Pakistan are generally disbursed at treasuries.

Every payment of a pension at a treasury has to be entered by the Treasury Officer on both copies of the Pension Payment Order. At the time of payment, the Treasury Officer takes the pensioner's receipt and checks the identifying marks and the signature or the thumb impression with those recorded on the disbursing officer's copy of the Pension



**Payment Order.** Some pensioners are permitted to draw their pensions without personal application, but in such cases they have to forward life certificates with their receipts and also have to attend at prescribed intervals for identification. The identification of the person drawing the pension with the person to whom the pension was granted is, of course, the essential audit check ; for the due performance of this check, the Audit office has to rely upon the disbursing authority.

**466. Audit of Pension Payment.**—The audit of payment of pensions is directed to seeing—

- (1) that the amount of pension drawn is not greater than the amount sanctioned ;
- (2) that the amount paid was duly authorised ;
- (3) that the voucher is duly supported by the prescribed life certificate, if the pensioner does not appear in person to receive payment ; and
- (4) that the prescribed certificates regarding non-employment etc., are furnished in evidence of the continued title to pension.

**467. Allocation of Pensions among different Governments.**—The charges on account of pensions of Government servants who have served under more than one Government are distributed among the Governments concerned in accordance with the rules of incidence accepted by them. These rules are set out in an Appendix to the Account Code, Volume I. The broad principle underlying these rules is that the pension of a Government servant is distributed among the several Governments in proportion to the length of his service under each ; departures from or modifications of this principle have, however, been permitted in certain classes of cases specified in the rules.

**468. Commutation of Pensions.**—The rules regulating the conditions of service of Government servants in certain Services provide for a portion of a Government servant's pension being commuted for a lump payment. The procedure for such commutations and the responsibilities of Audit Officers in connection with reports on these are prescribed in the relevant regulations issued by the Central Government or the Provincial Governments as the case may be.



## CHAPTER 27.

### Contingent Expenditure.

**469. Introductory.**—Charges of the most varying description, incidental to the management of an office or the working of a department, come under the category of Contingent expenditure. Subject to any rules or orders of Government or orders of a controlling authority, an officer is allowed to draw money from the treasury for contingent expenses within the amount of the allotment placed at his disposal. The financial rules of Government usually define the nature and limit of charges—

- (a) which may be incurred without previous sanction, and
- (b) which require the previous sanction—
  - (i) of any controlling officer, or
  - (ii) of Government itself.

**470. Classification of Contingent Charges.**—The actual classification of Contingent charges is determined by the orders of the Government concerned and, as a result, it differs in the spheres of different Governments. It will be found, however, on consideration of the dominant conditions governing the particular expenditure, that all Contingencies fall into one or other of the following classes.—

- (a) Contingent charges met from a lump sum grant placed at the disposal of a disbursing officer for expenditure at his discretion, on certain specified objects. Such charges are known as Contract Contingencies and generally consist of charges the annual incidence of which can be averaged with reasonable accuracy.
- (b) Contingent charges regulated by scale laid down by a superior authority. Such charges are designated Scale-regulated Contingencies.
- (c) Contingent charges, whether recurring or non-recurring, which cannot be incurred without the special sanction in each case of a superior authority. These are termed Special Contingencies.
- (d) Contingent charges which, though they may be incurred without special sanction, require the approval and countersignature of a superior authority before they can be admitted as legitimate expenditure against the revenues of Government. Ordinarily, countersignature is obtained after the bills are paid, but in rare cases it is necessary before payment. Such charges are known as Countersigned Contingencies.
- (e) Contingent charges which require neither special sanction nor countersignature, but may be incurred by the disbursing officer on his own authority subject to the necessity of accounting for them. Such Contingencies may be termed Fully-vouched Contingencies, though in actual practice the Auditor General dispenses with the production to Audit of vouchers of less than a prescribed amount.



**471.** These five classes of Contingencies are not necessarily mutually exclusive. There may be cases in which Special Contingencies are regulated by scale, or in which a bill for Scale-regulated Contingencies requires countersignature. Whenever a contingent bill falls within two or more classes, the methods of audit prescribed for each of those classes should, as far as possible, be applied to it.

**472.** It is for Government to prescribe what classes of expenditure will be brought under the contract system and to which department the system will be extended. It is also for Government to lay down any scale to regulate contingent charges to determine the authority competent to sanction special contingencies and to name the controlling authority whose signature is necessary in regard to Countersigned Contingencies.

**473. *Permanent Advance.***—Nearly all drawing officers have permanent advances, that is sums of money placed at their disposal to meet immediate needs. The amount of a permanent advance is reckoned at the lowest possible figure calculated to suffice for meeting petty charges and those emergent charges which cannot be foreseen. Whenever the advance requires to be replenished the disbursing officer has to submit bills to the treasury indicating the nature of the expenditure which has depleted the advance.

**474. *Responsibilities of Drawing Officers.***—Every drawing officer is expected to exercise the same vigilance in respect of petty contingent expenses as a person of ordinary prudence would exercise in spending his own money. He is further responsible for seeing that the rules regarding the preparation of vouchers are observed that the money is either required for immediate disbursement or has already been paid from the permanent advance, that the expenditure is within the available allotment, that steps are taken to obtain additional allotment if the original allotment has been exceeded or is likely to be exceeded, and that in the case of Contract Contingencies the proposed expenditure does not cause any excess over the contract grant.

**475. *Duties of Controlling Authorities.***—The main check over contingent expenditure is performed by the controlling authorities. It is their duty to see that the charges drawn in a contingent bill are of obvious necessity and are at fair and reasonable rates: that previous sanction for any item requiring such sanction is attached; that all requisite vouchers are received and are in order, and that the calculations are correct and specially that the expenditure has not exceeded, and is not likely to exceed, the allotment made for the purpose. If expenditure be progressing too rapidly, it rests with them to communicate with the disbursing officers and insist on its being checked. When however, as is often the case with Fully-vouched Contingencies, the charges do not come under the scrutiny of the controlling authority, these duties fall largely on the drawing officers themselves.

**476. *Audit.***—Audit Officers have their share of the responsibility for check over contingent expenditure which varies greatly with the different classes of contingent charges. It is least of all in the case of Contract Contingencies. It is somewhat greater in respect of Scale-regulated and Special Contingencies, as in the former case Audit has to satisfy itself that the charges incurred are in accordance with the scale which governs them and in the latter it has to watch the expenditure



against the necessary sanction of the superior authority. Over Countersigned Contingencies, the major portion of the control, apart from certain definite audit responsibilities, is exercised by the countersigning authorities. The responsibility of Audit is the great of all in the case of Fully-vouched Contingencies.

477. In the audit of contingent expenditure, the Audit Officer has to see—

(i) that each class of expenditure—

(a) is a proper charge against the Grant or Appropriation concerned,

(b) has received such sanction as is necessary,

(c) has been incurred by a Government servant competent to incur it ;

(ii) that such vouchers as are required by Audit have been submitted ;

(iii) that any certificates required under the financial rules of Government have been provided ;

(iv) that the rates are apparently not extravagant and that the standards of financial propriety (*vide* paragraph 26) are properly observed ;

(v) that the bill is in proper form and the classification is correctly recorded thereon ;

(vi) that, in the case of those bills for which an audit register is maintained, the flow of expenditure is not too rapid ; and

(vii) that, if the expenditure in the month of March is unusually large, it does not lead to irregularities.

478. In the case of Contract Contingencies, no sub-vouchers are submitted to Audit unless otherwise provided in the financial rules of Government. In the case of other contingencies, sub-vouchers above Rs. 25 each are required to be furnished to Audit unless a different limit is prescribed in any case or class of cases.

479. The principal duties of Audit in respect of the several classes of contingent charges are explained in the following paragraphs.

480. *Contract Contingencies*.—No details of the expenditure, beyond such totals of the various contract items as may be required for purposes of classification, are furnished in the bills. The checks mentioned in paragraph 477 are applied to these contingencies so far as the rules relating to them permit.

481. *Scale-regulated Contingencies*.—Contingencies regulated by scale include such charges as cost of liveries, rewards for destruction of wild animals, *batta* to witnesses and the like. The authority prescribing the scale lays down the conditions precedent to its application in each case, making it clear whether special sanction of superior authority is necessary, whether bills should be countersigned before or after payment, and what certificates should support the bills. In accordance with the conditions so laid down, charges regulated by scale may become Special Contract, Countersigned or Fully-vouched Contingencies, and should



be audited under the rules applicable to the particular class within which they fall. In addition, the Audit Officer should satisfy himself that the charges incurred are in accordance with the scale which governs them.

**482. *Special Contingencies.***—Audit is to watch and record the expenditure against the necessary sanction of proper authority.

**483. *Countersigned Contingencies.***—In cases where bills are countersigned after payment the money is actually drawn on an 'abstract' bill and the approval of the superior authority as indicated by its countersignature, is subsequently received by Audit on the monthly detailed countersigned bill. Both the abstract bill and the detailed monthly bill require scrutiny in audit. The scrutiny of the abstract bill is limited to seeing that it is signed by an officer authorised to sign such bills, that the summations are correct and that there is nothing extraordinary or unusual in it. The amount of the bill is held under technical objection until the receipt of the detailed monthly bill duly countersigned together with the necessary sub-vouchers. The monthly detailed bill is checked carefully on the principles stated in paragraph 477, and it is seen further that the bill is duly countersigned, that the charges included in it cover the amount drawn from the treasury on abstract bills and that details of charges are given where necessary.

In cases where countersignature is required before payment, there will be no abstract bill, but payment will be made on a detailed bill. The audit checks will be the same as in the case of detailed bills countersigned after payment.

**484. *Fully-vouched Contingencies.***—Payment of Fully-vouched Contingencies will be made on detailed bills and audit will be conducted as in the case of bills countersigned before payment.

**485. *Relative responsibilities of Controlling and Audit Authorities.***—A comparison of the relative responsibilities of the Controlling Officer and the Audit Officer in regard to contingencies shows that the duties of the former are more onerous than those of the latter; it is more difficult to decide whether expenditure is necessary than whether it is unusual and whether rates are reasonable than whether they are apparently extravagant. At the same time the Audit Officer also has to determine as far as possible whether the Controlling Officer is doing his work adequately, and this is, perhaps, his most important duty in respect of contingent expenditure.



**CHAPTER 28.****Grants-in-aid.**

**486. Introductory.**—Grants-in-aid represent final payments of the nature of donation or subscription to a corporate body, institution or other authority. The grantees may be either independent of Government or under the control of Government. Payments to grantees of the latter class are scrutinised in audit in the light of the general principles described in this Compilation. The duties and responsibilities of Audit in respect of grants made to a body, institution or concern which is independent of Government are briefly indicated in the following paragraphs.

**487. Audit.**—Audit can be applied (i) to the original grant itself and (ii) to the expenditure which is subsequently incurred from it by the grantee.

**488.** The audit of the grant itself is conducted according to the general principles and rules laid down for the audit of expenditure from the revenues of Government.

**489.** The extent of the audit of the expenditure incurred from a grant-in-aid by the grantee depends on whether the grant is conditional or unconditional. Where no conditions are attached to a grant, Audit is in no way concerned with the manner in which the grant is utilised by the grantee.

Where conditions are attached to the utilisation of the grant, these usually take the shape of specification of the particular objects on, or the time within which, the money must be spent. Whatever the nature of the conditions, Audit has to see as far as possible that they are fulfilled.

**490.** Unless it is otherwise ruled by Government, every grant made for a specified object is subject to the implied conditions—

- (i) that the grant will be spent upon that object within a reasonable time, if no time limit has been fixed by the sanctioning authority, and
- (ii) that any portion of the amount which is not ultimately required for expenditure upon that object will be surrendered.

Audit scrutiny, when applied, should pay due attention to these points.

**491.** When recurring grants-in-aid are made to an institution, Audit will as far as possible verify that the grantee continues to function as such institution and that the circumstances in recognition of which the grant was sanctioned still continue to exist.



**CHAPTER 29.****Allocation of Expenditure between Capital and Revenue.**

**492. Introductory.**—The most usual classes of expenditure apart from expenditure on the construction and repair of concrete assets have been dealt with in the preceding chapters, and the stage has now been reached for the study of expenditure on Works. The importance of this class of expenditure can be gauged from the fact that the total expenditure in Pakistan in 1949-50 recorded under the major heads relating to Civil Works, Irrigation, Electricity, Railways, Forests, Posts and Telegraphs, and other Works outlay, amounted to nearly 27 crores of rupees, and the larger portion of such expenditure was on Works. As a preliminary to the study of Works expenditure, developed in the next chapter, it is necessary to have an idea of the principles of allocation of expenditure between Capital and Revenue. These principles are explained in the present chapter.

**493. Basic idea of Capital and Revenue.**—Just as a merchant will not embark on any new venture until he is satisfied that it will pay him, so it is incumbent on the responsible officials of Government, before deciding on any large scheme or project of a purely commercial nature, to "count the cost" and satisfy themselves that the revenue to be derived from its working after meeting all expenses connected with its operation, maintenance and upkeep, will suffice at least to repay the interest on the capital expended on it. An essential preliminary to embarking on such a project then is an estimate of the capital expenditure to be incurred in connection with it and of the probable gross revenue which will be realised from it after it is started.

**494. Distinction between Capital and Revenue Expenditure.**—The success of a commercial undertaking is determined by the percentage of the net profits to the capital expenditure. It is essential therefore to distinguish correctly expenditure which is debitable to Capital and to Revenue Account, respectively. To make this distinction correctly is one of the most important duties of the accounting authority, as any error in this respect will falsify the whole of the results of commercial accounts. Mr. Dicksee, in his Treatise on Auditing draws this distinction as follows :—

"Shortly stated, the question can in any event be answered by finding the answer to the following question: Has the particular expenditure incurred in any individual case been incurred for the sake of improving the earning capacity of the undertaking? If the answer to this question is in the affirmative, then, and to that extent, the expenditure in question is Capital expenditure. But if it has only had the effect of putting the earning capacity of the undertaking upon the same footing as that which had previously obtained (and which has since declined by the ordinary process of wear and tear, or the effluxion of time, in respect of which no provision has been made) it must be charged against Revenue. The precise meaning of this latter qualification is that the mere



renewal of wasting assets, not otherwise provided for, cannot be called Capital expenditure, but that any extension, or the acquiring of fresh assets, is in the nature of Capital expenditure”.

**495. *Expenditure of a Capital nature.***—It is obvious, then, that the whole of the initial expenditure in connection with the formation of a scheme prior to its being opened for regular working must be reckoned as capital expenditure, but that the capital expenditure on the scheme does not cease with the closing of the project estimate. That estimate merely provides for the formation of the scheme and the consequent construction or acquisition of assets to meet the needs incidental to its working, as anticipated at the time of its opening, but does not take into account the additional expenditure required for the extension of the scheme or for the acquiring of fresh assets. Thus for example, in the case of a Railway, as the traffic expands, the need for additional facilities increases, and the process being in the majority of cases continuous, the Capital Account of the Railway is actually never closed but additions are made to it from time to time in respect of extension, alterations, and substantial permanent improvements which add to the original value or durability of the property.

**496. *Expenditure debitable to Revenue Account.***—With effect from the date of the opening of the business of an undertaking, a separate set of Revenue accounts has to be kept up in addition to the Capital accounts previously mentioned, and thereafter in the preparation of estimates, the allocation of bills, and the final record of expenditure in the accounts, a clear distinction has to be drawn between expenditure of a Capital nature, such as is mentioned above, and expenditure to be debited to the Revenue Account, which may be said to consist of expenditure incurred on replacements, repairs, renewals and depreciation of fixed assets, and also the current expenses of carrying on the business, such as pay, allowances, etc., of establishment employed on earning revenue and other incidental expenses, such as rents, rates, carriage, insurance, etc.

**497. *Difficulty in laying down hard and fast Rules.***—The foregoing statement of the case gives only the general principle which is applicable to all Government commercial departments or undertakings. It is quite impossible to draw a hard and fast line between what is debitable to the Capital and what to the Revenue Account. Cases may arise in which a work of replacement partakes of both a capital and a revenue nature ; and this makes the question of allocation specially complicated.

**498. *Rules for Railways.***—The following are the broad principles on which expenditure is allocated between Capital, Revenue and Depreciation Reserve Fund on State-managed Railways.—

(a) Capital bears—

- (i) the cost of land,
- (ii) the first cost of construction and equipment of the line,
- (iii) the cost of maintaining a section of the line not opened for working,
- (iv) the cost of any addition to the line or equipment of the line when estimated to cost more than a fixed monetary limit.



- (v) the excess if amounting to more than a fixed monetary limit in the cost of a new asset over the original cost of the existing asset or over the cost of replacement by a like asset, whichever gives a smaller debit to Capital.

(b) Revenue bears—

- (i) all charges for maintenance and repairs after the opening of a line for traffic, including the current expenses of conducting the business of the Railway, *e.g.*, pay, allowances, etc., of establishment employed on the open line,  
(ii) the contribution made to the Depreciation Reserve Fund to meet the cost of replacements and renewals,

NOTE.—The amount annually debited to Revenue on this account is equivalent to 1/60th of the Capital at charge of each Railway at the end of the previous financial year.

- (iii) the excess as worked out under clause (a) (v) above in the cost of replacement of an asset when such excess is not more than a fixed monetary limit.

(iv) the cost of such renewals, replacements and abandonments of assets as are not debitable to the Depreciation Reserve Fund;

- (v) the cost of such works of additions as are estimated to cost not more than a fixed monetary limit.

(vi) the cost of a temporary or experimental work.

- (c) Subject to certain exceptions detailed in the departmental codes, the Depreciation Reserve Fund bears the cost of replacement and renewal of an asset by a like asset or the original cost of the asset replaced, whichever is greater, and also the cost of abandoned assets. Any excess cost in replacement is dealt with under clause (a) (v) above.

499. Deleted.

500. *System in Posts and Telegraphs Department.*—A commercial system of accounts was introduced in the Posts and Telegraphs Department with effect from the year 1925-26. Block accounts for the various branches of the Department were prepared which showed the present value of existing assets. The valuation reports revealed that the amount of "expired capital outlay" on 1st April 1925 was very considerable and that assets representing an appreciable amount of expenditure had been lost or abandoned in the past. The Capital Account of the Department opened, however, with the total written down value of the assets as on 1st April 1925, and for a time as assets were renewed the Capital Account was written up by the amount of the expired capital value on 1st April 1925 which was met from interest bearing advances made by Government. On 1st April 1925 a Depreciation Reserve Fund was instituted; the arrangements governing it were subjected to very important modifications on more than one occasion during the next eleven years, and on 1st April 1936 a Renewals Reserve Fund was formed in place of the Depreciation Reserve Fund. This Fund is designed to meet the cost of all replacements (irrespective of their being higher or lower than the original cost) and of abandoned assets. The contribution to the Fund is made at an annual rate fixed by Government from time to time.



**501. Rules for Irrigation Works, etc.**—As regards the projects for Irrigation, Navigation, Embarkment, Drainage works and Electricity, the following rules are observed generally in deciding whether an item of expenditure should be debited to Capital or to Revenue Account.

(a) Capital bears all charges for the first construction and equipment of a project as well as charges for maintenance on sections not opened for working, and charges for such subsequent additions and improvements as may be sanctioned by competent authority. It may also bear the charges of restoration when damage has been caused by extraordinary casualties, such as flood, fire, etc., and such charges are recorded separately as "extraordinary replacements".

(b) Revenue bears all charges for maintenance and working expenses which embrace all expenditure on the working and upkeep of the project, and also charges for such renewals, replacements, additions, improvements or extensions, as under clauses (c) and (d) below are debitable to the Revenue Accounts.

✓(c) In the case of renewals and replacements of existing works, if the cost really represents an increase in the capital value of the system and exceeds the cost of the original work by a fixed monetary limit or such other limit as may be fixed by Government in consultation with the Audit Officer, the cost of the new work is divided between Capital and Revenue, the portion debited to the latter Account being the cost of the original work, which is estimated if the actual is not known, the balance being debited to Capital. In other cases, the whole cost of the new work is debited to Revenue. Thus the cost of a renewal which does not represent a substantial improvement of the original work but is in all material essential the same as the latter, although it may exceed the cost of that work by more than the prescribed limit, is debited to the Revenue Account.

(d) When the construction estimate of a project for which a separate Capital Account is kept is closed, the expenditure on works of extensions is allocated thus :—

(i) estimates exceeding a fixed monetary limit or such other limit as may be fixed by Government in consultation with the Audit Officer, for (1) works which are in themselves directly remunerative, such as new distributaries, mills or works for increasing the canal discharge, and (2) works which are necessary for the full development of a project but are not in themselves directly remunerative, are debited to the Capital Account ;

(ii) other estimates are debited to the Revenue Account.

(e) Until a new project becomes revenue-earning, charges for interest on money borrowed to finance its construction may be debited to Capital at the discretion of Government, but the writing back of the capitalised interest should be the first charge on any capital receipts or surplus revenues derived from the project when opened for working.



**502. Sources from which Capital and Revenue Expenditure is met.**—The revenue expenditure of *quasi-commercial* projects is generally met from the current revenues, but the capital expenditure may be met from the various sources mentioned in paragraph 221.

The question whether the capital expenditure on a particular work or project is to be met from revenue or from other sources is purely a question of finance the decision on which rests with the Executive *cum* the Legislature.

**503. Provincial Governments' Powers of Borrowing.**—Before 1st April 1937, the principles by which capital expenditure was met from borrowed funds were prescribed and jealously guarded by the *Secretary of State*. According to those principles, capital expenditure could legitimately be financed from borrowings if it were (a) on productive works, (b) in a commercial department which was working at such a profit as to fulfil the test of productivity imposed by the Secretary of State, or (c) on commercial undertakings whose accounts were maintained on a commercial basis. Otherwise the prescribed condition was that the proposed expenditure should be so large that it could not reasonably be met from current revenues, this condition being made concrete by the rule that expenditure on Provincial works could not ordinarily be met from borrowed funds unless the estimated cost of a work or a group of works was not less than Rs. 5 lakhs.

**504.** With the advent of autonomy in the Provincial field these restrictions ceased to be binding upon Provincial Governments who can lay down whatever limitations they deem proper for this purpose in agreement with their Legislatures, but their decision in this respect should be expected to conform to the principle of prudent finance enunciated in the following terms :—

“Two conditions must be fulfilled before it would be justifiable for the Government to spend loan funds on unproductive purposes. These are, firstly that the objects for which the money is wanted are so urgent and vital that the expenditure can be neither avoided, postponed nor distributed over a series of years, and secondly that the amount is too great to be met from current revenues”.

**505. Duties of Audit.**—The duties of Audit in connection with the allocation of expenditure between Capital and Revenue and in connection with the record of expenditure inside or outside the Revenue Account may be summarised as follows :—

- (a) it should see that commonly accepted accounting or commercial principles are not infringed ;
- (b) it should verify that the accounts exhibit the true financial facts ; and
- (c) it should bring to notice transgression of generally accepted principles of public finance.

Although Audit has the right of criticising in the light of financial rules which have been generally laid down or on grounds of general financial propriety any order of classification issued by Government, it should be remembered that the final decision will in the last resort rest with the Governor-General or the Governor, as the case may be, after consultation with the Auditor General.



## CHAPTER 30.

## Works Accounts.

## A.—General.

**506. Introductory.**—The important aspects of classification between Capital and Revenue particularly relevant to Works expenditure have been discussed in the previous chapter; a study of the more detailed processes of accounting and audit relating to this class of expenditure can now be undertaken. It is not possible, however, to do more in this Compilation than give a general outline of the system and principles underlying those processes.

**507. Need for Preparation of Estimates before Sanction.**—There are always more demands on the public purse than can possibly be met, and therefore the advantages to be derived from compliance with each demand have to be weighed against the probable cost in order that those on which Government money can be used to the best advantage may be selected. Now, the direct cost of a new establishment can be calculated accurately, its indirect cost with reasonable accuracy, and the cost price of anything to be charged as contingent expenditure will be known within reasonable limits at the time the purchase is sanctioned. But a building for, say, a hospital can be erected for one lakh, while 40 lakhs can also be spent on its erection. Government may be quite willing to spare one lakh, but extremely reluctant to spend 40 lakhs. It is, therefore, a fundamental rule that ordinarily, no work shall be commenced or liability incurred in connection with it until a properly detailed design and estimate has been sanctioned.

**508.** The efforts of the Audit Department to enforce the observance of the rule are only partially effective. An Audit Officer can watch the measure of his success in regard to the works expenditure under his audit by comparing from year to year the increase or decrease of the percentage of amounts placed under objection for non-observance of the rule to the total works expenditure of each year. The results of such comparisons will show that much steady work on these lines yet remains to be done by Audit.

**509. Basic Rules applicable to Works executed by the Public Works Department.**—Each Government frames its own rules governing the execution of works by the Public Works Department. Under the rules framed by the Central Government there are four main stages in the project for a work, namely, administrative approval, expenditure sanction, technical sanction, and the allotment or re-appropriation of funds.

✓ **510.** These stages are explained briefly.

- (i) **Administrative Approval.**—A work has to be designed so as best to fulfil its purpose. Thus the design has usually to be prepared in consultation with, and to be accepted by, the competent authority of the department requiring the work. This formal acceptance by the competent authority is called “administrative approval” and is, in effect, the concurrence of the administrative department in the proposal for the execution of certain specified works, at a cost approximately stated.



- (ii) *Expenditure Sanction.*—This means that the expenditure on the proposed work is sanctioned by the competent authority. Expenditure on works beyond certain limits requires the previous sanction of the Finance Department, while in other cases the act of allotment or re-appropriation of funds operates as sanction to the expenditure.
- (ii) *Technical Sanction.*—Except for petty works, petty repairs and repair works for which lump provision has been sanctioned, a properly detailed estimate is prepared for each work to be sanctioned by the competent authority. This sanction is known as the technical sanction to the estimate, and amounts to no more than a guarantee that the proposals are structurally sound and that the estimates are accurately calculated and based on adequate data. Such sanction is accorded by the Public Works Department and should, except in special cases, be obtained before the construction of the work is commenced. If, in working out the detailed estimates or during the construction of the work, it is found necessary to make any important deviation from the design to which administrative sanction has been obtained, such sanction has also to be obtained to the deviation.
- (iv) *Allotment and Re-appropriation.*—These represent the provision of a particular sum of money to meet expenditure on a specified object; such provision is operative only for the financial year for which it is made.

511. *Supplementary and Revised Estimates.*—Even with the greatest care and accuracy it is not always possible to foresee everything that will be required or to frame an estimate which will not be exceeded. Therefore it is prescribed in the rules that any development of a project thought necessary while a work is in progress, which is not fairly contingent on the proper execution of the work as first sanctioned, must be covered by a supplementary estimate accompanied by a full report of the circumstances which render it necessary, and that a revised estimate must be submitted when the sanctioned estimate is likely to be exceeded by more than 5 per cent.

512. But the extra expenditure which has to be covered by a supplementary or revised estimate is often incurred before sanction to the estimate can be obtained. This nullifies the value of such estimates, and therefore it is further prescribed in the rules that when any excess over a sanctioned estimate is foreseen and there is likely to be unavoidable delay in the preparation of a revised estimate, an immediate report of the circumstances should be made to the authority whose sanction will ultimately be required.

513. When excesses occur at such an advanced period in the construction of a work as to render the submission of a revised estimate purposeless, the excesses, if beyond the power of the Divisional Officer to pass, are explained in the Completion Statement or Detailed Completion Report mentioned in the following paragraph.

514. Finally, a consolidated Completion Statement is prepared monthly of completed works the actual expenditure on which is in excess of the sanctioned estimate by an amount which a Divisional Officer is empowered



to pass. But, in respect of completed works on which the outlay has been recorded by sub-heads, a Detailed Completion Report for individual works is prepared, instead of a Completion Statement, in the following cases :—

- (i) when, if the work was sanctioned by higher authority, the total estimate has been exceeded by more than 5 per cent. ; and
- (ii) when, if the work was sanctioned by the Divisional Officer, the total estimate has been exceeded by an amount greater than that which he is empowered to pass.

515. The consolidated Completion Statement shows for each work the estimated amount, the outlay, and the excess. In cases in which the Completion Statement is utilised instead of a revised estimate (see paragraph 513), the excess is set forth in sufficient detail to satisfy the authority whose sanction is necessary. The Detailed Completion Report gives a comparison and explanation of differences between the quantity, rate and cost of the work executed and those entered in the estimate. The object of the Completion Statement or Detailed Completion Report is to enable the superior authorities to scrutinise the excess and to sanction it where it is reasonable.

516. *Importance of accurate Measurement.*—Works expenditure is incurred on the utilisation of materials and labour. Materials may be supplied from stores, or bought for the work, or provided by the contractor. Work may be carried out by daily labour, by piece-work (that is to say, work paid for at a fixed rate), or by contract. A contract should be in writing and should contain stipulations as to the quantity and quality of work to be done, the time within which it is to be completed, the terms upon which the payments will be made, etc. Most contract works are carried out by petty contractors who cannot wait for payment till completion of work, and are therefore paid periodically according to work done up to date. Thus, whether payment is to be made for work on the basis of a contract or of piece-rates, prompt measurement is essential ; and, of course, the accuracy of the recorded measurement of work done is the basis upon which rests the efficiency of the audit of works expenditure. The check by actual measurement is conducted entirely by the Executive. It would be impossible for Audit to take any part in this work unless it had a staff of measurers in every division in Pakistan to make the original measurements, or a staff in each Province to tour throughout it checking measurements. The sole check over these initial measurements is exercised by the Sub-divisional or Divisional Officer, or by the Superintending Engineer, who verifies them either by making check measurements or by inspection. The expert knowledge of an experienced Engineer enables him in many cases to detect any very gross overmeasurements or overpayments on inspection and comparison with the recorded expenditure on the work.

517. But executive authorities do not always realise the extreme importance of accurate measurement. There is always liable to be a rush of expenditure in March, the last month of the financial year, and cases have occurred in which payments have been made on measurement reports submitted by subordinates whose travelling allowance journals



indicate that, on the day on which the measurements were alleged to have been made, they were miles away from the site of the work. Such measurement reports have no value; and, if Audit detects such cases at inspections, prompt notice should be taken of them.

**518. Contracts.**—The purchase of stores, the execution of work, etc., are often done by contract. For this purpose Government enters into a contract or an agreement in writing with the person or body concerned. Such a document contains *inter alia* stipulations as to quantity and price of stores to be supplied or work to be done and the time within which it is to be completed. As a general rule, such contracts should be concluded only after competitive tenders have been invited in the most public manner possible.

**519.** The following general principles applicable to contracts involving expenditure from Central revenues have been prescribed by the Central Government for the guidance of authorities who have to enter into contracts or agreements :—

- (i) The terms of a contract must be precise and definite, and there must be no room for ambiguity or misconstruction therein.
- (ii) As far as possible, legal and financial advice should be taken in the drafting of contracts and before they are executed finally.
- (iii) Standard forms of contracts should be adopted wherever possible, the terms to be subject to adequate prior scrutiny.
- (iv) The terms of a contract once executed should not be varied materially without the previous consent of the competent financial authority.
- (v) No contract involving an uncertain or indefinite liability or any condition of an unusual character should be executed without the previous consent of the competent financial authority.
- (vi) Whenever practicable and advantageous, contracts should be placed only after tenders have been invited openly, and, in cases where the lowest tender is not accepted, reasons should be recorded.
- (vii) In selecting the tender to be accepted the financial status of the individuals and firms tendering must be taken into consideration in addition to all other relevant factors.
- (viii) Even in cases where a formal written contract is not made, no order for supplies, etc., should be placed without at least written agreement as to price.
- (ix) Provision must be made in contracts for the safe-guarding of Government property entrusted to a contractor.

**520.** Audit has power to examine contracts and to bring to the notice of the proper authority any case where competitive tenders have not been invited or where high tenders have been accepted or where other irregularities in procedure have come to light.



## B.—WORKS EXPENDITURE

**521. Audit.**—The audit of Works expenditure falls under three heads :—

- (a) preliminary audit by the Divisional Accountant in the divisional office ;
- (b) audit in the Audit office ; and
- (c) test audit at the periodical inspection of the divisional office.

**522. Divisional Accountant and his Functions.**—A trained Divisional Accountant is posted by the Accountant General to each divisional office to assist the Divisional Officer in the discharge of his responsibilities in respect of the accounts of the division. The functions of the Divisional Accountant are three-fold :—

- (i) as accountant,—the compiler of the accounts of the division in accordance with the prescribed rules and from the data furnished to him ;
- (ii) as primary auditor,—the representative of the Audit Department, charged with the responsibility of applying certain preliminary checks to the initial accounts, vouchers, etc. ;
- (iii) as financial assistant,—the general assistant and adviser to the Divisional Officer in all matters relating to the accounts and budget estimates, or to the operation of financial rules generally.

**523.** The Divisional Accountant is expected to see that the rules and orders in force are observed in respect of all the transactions of the division. If he considers that any transaction or order affecting receipts or expenditure is such as would be challenged by the Accountant General if the primary audit entrusted to the Accountant were applied by the former, it is his duty to bring this fact to the notice of the Divisional Officer, with a statement of his reasons and to obtain the orders of that officer. It will then be his duty to comply with the orders of the Divisional Officer ; but if he has been overruled and is not satisfied with the decision, he will at the same time make a brief note of the case in the Register of Divisional Accountant's Audit Objections and lay the register before the Divisional Officer so that the latter may have an opportunity either of accepting the Divisional Accountant's advice on reconsideration and ordering action accordingly or of recording for the information of the Accountant General, his reason for disregarding that advice. An objection recorded in this register is not considered as finally cleared until it has been reviewed by the Accountant General.

**524.** The Divisional Accountant brings to the Divisional Officer's notice all instances in which subordinate officers exceed the financial limitations placed on their powers by the Divisional Officer or a higher authority. He may further be required by the Divisional Officer to undertake on his behalf such other scrutiny of the accounts of the receipts and disbursements of subordinate officers, falling within the Divisional Officer's own powers of sanction, as the latter may consider necessary. He is further expected to inspect the accounts records of sub-divisional offices so as to check a percentage of the initial accounts and to bring defects to the notice of the Divisional Officer. The results



of this inspection are placed on record for the inspection of the Accountant General, and any serious financial irregularities are reported at once to the Audit Office.

525. As a primary auditor, the Divisional Accountant is responsible for examining the accounts returns of Sub-divisional Officers to see—

- (i) that they have been received in a complete state ;
- (ii) that all sums receivable are duly realised, and on realisation credited to the proper head of account and also to the proper personal account, if any ;
- (iii) that the charges are covered by sanctions and allotments, and are supported by complete vouchers setting forth the claims and the acknowledgments of the payees legally entitled to receive the sums paid ;
- (iv) that all vouchers and accounts are arithmetically correct ;
- (v) that they are in all respects properly prepared in accordance with the rules ;
- (vi) that all charges are classified correctly, those which are debitable to the personal account of a contractor, employee or other individual being recorded as such in a prescribed account ; and
- (vii) that on the basis of rates sanctioned by competent authorities and of facts (as to quantities of work done, supplies made, etc., or services rendered) certified by authorised Government servants, the claims admitted for payment are valid and in order. It is not necessary that the Divisional Accountant should check personally the arithmetical accuracy of all vouchers and accounts, but he is responsible that a cent. per cent. check is exercised efficiently under his supervision.

526. It is one of the functions of the Divisional Accountant to see that expenditure which is within the competence of the Divisional Officer to sanction or regularise is not incurred as a matter of routine under the orders of subordinate disbursing officers without his knowledge.

527. The Divisional Accountant conducts the detailed audit of muster rolls, and petty vouchers which are not submitted to the Audit office, and of all accounts of stores.

528. He is responsible for the arrangements for checking the computed tender, i.e., for seeing that satisfactory and efficient arrangements are made for checking and that the comparative statement correctly incorporates the totals as checked of the individual tenders.

529. He checks the works expenditure with the estimates to ensure that the charges incurred are in pursuance of the objects for which the estimate was intended to provide. In the case of works the expenditure on which is recorded by sub-heads (*that is*, items of work such as brickwork, etc.), the Divisional Accountant is responsible for checking the expenditure on each sub-head with the estimated quantity of work to be done, the sanctioned rate, and the total sanctioned cost so as to bring to notice all deviations from the sanctioned estimate.



**530. Audit in the Audit Office.**—The audit of works expenditure in the Audit office is conducted mainly with reference to—

- (A) the sufficiency of the authority for incurring the expenditure ;
- (B) the accuracy of the classification of the charges against the works, persons, services and heads of accounts concerned ;
- (C) the proof of payment to the correct payee ; and
- (D) the standards of financial propriety.

**531.** The basis upon which audit relies for exercising the first check (A) is the technical sanction to detailed estimates. For this purpose sanctions are communicated to the Audit office either individually or in a consolidated monthly statement. These are scrutinised as explained in Chapter 15 and noted in the proper audit register. Unless, with the concurrence of the Auditor General, the Government concerned has specially desired this, the Audit office is not required to see whether a work has received the necessary administrative approval, or whether the amount of the technical sanction does not exceed, without proper authority, the amount of the administrative approval. It has, however, to be seen that expenditure sanction has been accorded for each work for which technical sanction has been accorded, and that all special charges which under the rules require the sanction of an authority superior to the Divisional Officer are duly sanctioned by such authority. The expenditure incurred on each work, month by month, is then posted against the sanction from the monthly accounts received from the division, and a comparison is made between the expenditure sanctioned and the expenditure actually incurred. Expenditure not covered by, and in excess of sanction is placed under objection until the necessary sanction is accorded or the expenditure under objection is otherwise regularised by recovery, etc.

**532.** The second check (B) consists in seeing (i) that, if the charge is debitable to the personal account of a contractor, employee or other individual, or is recoverable from him under any rule or order, it is recorded as such in a prescribed account so as to facilitate watch of the recovery of the amount due ; (ii) that the charge is classified under the proper heads of account ; and (iii) that the expenditure is incurred in pursuance of the precise objects for which the detailed estimate for the work was intended to provide. The last item of the check cannot be exercised properly in the Audit office as the detailed estimates which define the objects on which expenditure is to be incurred are not available there. Charges are therefore examined generally for verification that there is no apparent misclassification ; but the detailed check with estimates is left to the Divisional Accountant.

**533.** The personal account of the contractor is an important document. It is credited with the value of work done or supplies made by the contractor and debited with the amount paid or the value of stores supplied to him. Extracts of the ledger accounts are submitted to Audit with the monthly accounts except where Government has authorised their audit at the periodical inspections. These facilitate the exercise of the first item of the check mentioned above. Further, they ensure that the ledgers maintained in the divisions are kept up to date, and enable obvious errors to be rectified promptly. The audit of these ledger accounts is not complete until they are test-checked at local inspections.



534. The third check (C) consists mainly in seeing that a properly receipted voucher is sent for every payment. The responsibility for making payments to the person entitled to receive payment rests with the paying officer as in the case of almost all payments not made by the Audit office direct.

535. As regards the fourth check (D), the standards of financial propriety to be applied have already been explained in paragraph 26.

536. Besides these four checks, each voucher for payment on running account is compared with the last bill and it is seen that the up-to-date and other figures which are dependent on the entries in that bill are correct.

As the arithmetical calculations of the vouchers are checked completely in the divisional office under the supervision of the Divisional Accountant, a percentage check in the Audit office is considered to be sufficient.

537. *Local Inspection.*—The third of the heads mentioned in paragraph 521 concerns the procedure under which the audit conducted in the Audit office is supplemented by the local inspection of divisional offices. This duty is explained in Chapter 36.

### C.—WORKS RECEIPTS

538. *Audit.*—The preceding paragraphs deal with the audit of expenditure. As regards receipts, much (as for example the Irrigation revenue) is realised by the Civil authorities and adjusted through the accounts. In such cases, the ordinary principles regarding the audit of receipts are applicable: see Chapter 13. Of the receipts realised direct by Public Works officers, the most important are the rents of residential buildings and other services, and it is the duty of Audit to see, in respect of these, (a) that the standard rents are correctly determined in accordance with the relevant rules, (b) that the rent recoverable from each tenant is correctly calculated, and (c) that the rents due are realised.

539. In exercising the first of these checks the Audit Officer checks the capital cost and sees that the allowance for maintenance and repairs is according to the scale fixed by Government and is reasonable. In regard to the second check it has to be seen that the rent assessed is either the standard rent or 10 per cent. of the occupant's emoluments, whichever is less. In cases in which the 10 per cent. limit has the effect of lowering the rent realised for the building appreciably below the standard rent, the Audit Officer has to satisfy himself that the scale of accommodation supplied does not exceed that which is appropriate to the status of the occupant.

540. In some Provinces the accounts of rents are not submitted to the Audit office. In such cases the second and third checks are



left to the Divisional Accountant, and a test check is exercised at the time of the periodical inspection of the division. The first check is conducted invariably in the Audit office.

**D.—GENERAL PRINCIPLES IN REGARD TO LARGE CONSTRUCTION PROJECTS**

**541. *Accounting Principles.***—The accounting rules set forth in the Account Code are not intended to cover fully the requirements of large construction projects. The exact form of the accounts, whether direct or *pro forma*, which are to be maintained for these projects (other than Railways, for which separate rules exist) must be governed by the following four main considerations :—

- (i) the form of the project estimate ;
- (ii) the requirements of the Engineer-in-charge to enable him to exercise adequate financial control during the construction period ;
- (iii) the ultimate form of the Capital and Revenue Accounts to be maintained for the project after construction ; and
- (iv) the form of the report which the Engineer-in-charge will desire to write after the completion of the project, describing the manner in which the work has been undertaken and the cost of the main items of the work.

**542.** As regards item (i), it may be theoretically possible to prepare project estimates in such a form that accounts maintained on the lines of the estimate would not only serve the purpose of item (ii) but would also be the basis on which items (iii) and (iv) would rest. It is, however, customary to prepare project estimates in a form which groups together under the head “general charges” all such indirect charges as tools and plant, establishment (other than that charged to works), interest, and all other miscellaneous charges, instead of allocating them in advance proportionately to the several units of the project. When writing his final report, however, the Engineer-in-charge will desire to show the real cost of the work under each of the more important units of that work. For the purpose of his report the Engineer-in-charge may work on the basis of the sub-divisions of the work as they appear in the project estimate, or of the subsequent sub-divisions as determined by the allocation to revenue-producing units of the capital at charge of the work. In either case, such a report of real cost by units must necessitate a corresponding ultimate distribution of all the indirect charges mentioned above.

**543.** It might be feasible to overcome the difficulty of allocating in advance most of the “general charges” between the several units. But there are peculiar problems in the way of framing in advance an estimate, the component items of which shall correspond with the sub-division of the completed work into revenue-producing units, of the allocation of charges connected with (a) Special Tools and Plant, and (b) Interest.

**544. *Special Tools and Plant.***—Where Special Tools and Plant are used, or any large labour-saving machinery is employed, the question at once arises of the debit of a proportion of the capital cost to different units of the project. The capital cost of Special Tools and Plant is



ordinarily debited in the first instance to a separate head, and the question of charging depreciation on such account raises difficult issues. It is in some cases held to be impossible to calculate the depreciation, and to determine the relative utility to individual items of work, with sufficient accuracy to justify an attempt to clear this separate head by debit to units of the work. On the other hand, the Engineer may desire that the cost of Special Tools and Plant should be written off against the several works on which they are used, so that he may know the real cost of the works and also exercise proper control over expenditure. This cannot be done without the determination of suitable rates of depreciation on account of Tools and Plant and a reasonable estimate of their residual value on the completion of the work. These have to be fixed by the Executive in consultation with Audit.

545. In regard to the following matters the Executive will consult Audit, though the final decision rests with the former.

- (a) What items of plant are to be regarded as "ordinary" and what as "special";
- (b) What items of plant are to be depreciated and distributed and what are to be charged finally to Special Tools and Plant. In the latter case the sale-proceeds will, of course, be credited to the same head.
- (c) The life of the plant, the rate of depreciation and the residual value.
- (d) The method of charging off depreciation, whether on a time or on an output basis.

546. *Interest charges.*—The interest charges on capital outlay are classified ordinarily under the general heads of account and adjusted periodically by debit to the accounts of the project. In exceptional cases, when the size of a project necessitates a delay of many years before it can begin to be productive, special sanction may be accorded for the adjustment of interest during the construction period by an increase of the loan capital at charge. In either case, the adjustment of interest as between the units of the project will follow the same lines as the adjustment of the capital at charge for the purpose of determining the allocation as between those units for the purposes of the Capital and Revenue accounts.

547. *Audit.*—A consideration of these general principles will make it clear that the initial accounts of such a project must follow the form of the project estimate, and that audit must follow the same lines in order to ensure that financial control is being exercised through a comparison of expenditure with the relevant figures in the project estimate.

548. At the same time it is essential that, as soon as possible after construction is started, a decision should be reached regarding items (iii) and (iv) mentioned in paragraph 541 above, namely :—

- (a) the ultimate form of the Capital and Revenue Accounts which will have to be opened when the work has been constructed and comes into operation; and
- (b) the form of the report which the Engineer-in-charge will desire to produce on the termination of his work.



549. Accounting will have to be so ordered that the material is prepared in a suitable form for both these purposes. So far as the latter is concerned, this is essentially work done on behalf of the Executive and is therefore subject to the orders passed by the Executive. For the former the Auditor General has a definite responsibility. For the fulfilment of that responsibility, audit must in this case also follow the form of the accounts, to enable the Auditor General, on the completion of the project and the closing of the accounts, to satisfy himself as to the correct allocation of the capital at charge between the separate working units.

549. In regard to the following matters the Executive will consult the Auditor, though the final decision rests with the latter.

(a) What items of plant are to be regarded as "ordinary" and what as "special" ;

(b) What items of plant are to be depreciated and distributed and what are to be charged finally to Special Tools and Plant. In the latter case the sale-proceeds will be credited to the same head.

(c) The life of the plant, the rate of depreciation and the residual value.

(d) The method of carrying off depreciation, whether on a time or on an output basis.

549. Interest charges.—The interest charges on capital outlay are classified originally under the general heads of account and adjusted periodically by debit to the accounts of the project. In exceptional cases when the size of a project necessitates a delay of many years before it can begin to be productive special sanction may be accorded for the adjustment of interest during the construction period by an increase of the loan capital at charge. In other cases the adjustment of interest as between the units of the project will follow the same lines as the adjustment of the capital at charge for the purpose of determining the allocation as between those units for the purposes of the Capital and Revenue accounts.

549. Audit.—A consideration of these general principles will make it clear that the initial accounts of such a project must follow the form of the project estimates and that audit must follow the same lines in order to ensure that financial control is being exercised through a comparison of expenditures with the relevant figures in the project estimates.

549. At the same time it is essential that as soon as possible after construction is started a decision should be reached regarding items (iii) and (iv) mentioned in paragraph 541 above, namely:—

(a) the ultimate form of the Capital and Revenue Accounts which will have to be opened when the work has been completed and comes into operation ; and

(b) the form of the report which the Engineer-in-charge will desire to produce on the termination of his work.



## CHAPTER 31

## Stores and Stock Accounts

## A.—GENERAL

550. *Introductory.*—Practically, every department of Government has charge of articles purchased with public money. These articles may be divided broadly into (i) unpriced articles and (ii) priced articles. (See also paragraph 318.)

551. Unpriced articles comprise those articles of stationery, furniture, office equipment, etc., which are required for the administrative purposes of an office. They are purchased and are stored in the office for use as occasion demands. The accounting procedure is simple, as only a numerical account is maintained of each class of article, and Audit is not concerned in this matter except as regards the initial charges, in regard to which the procedure has been explained in Chapter 27.

552. With few exceptions, all articles required for the activities of a department fall under the head "priced articles" if the cost of their purchase or manufacture is debited to a Suspense head or to Capital Account as in the case of State Trading Schemes, which in turn is relieved as articles are consumed. The accounting methods are somewhat complicated in view of the fact that they include two sets of accounts, namely, (i) numerical accounts and (ii) priced accounts; and these two sets of accounts are in many cases maintained by different persons.

553. The general principles of the audit of stores and stock accounts have been explained in Chapter 19. It remains now to explain the system of accounts maintained of the various classes of stores and stock in respect of which the Auditor General may have to arrange for audit. In this Compilation it is only possible to deal with a few of them by way of illustration. The examples chosen for this purpose are—

- (i) Public Works Stores,
- (ii) Stores and Stock Accounts of Railways, and
- (iii) Stores and Stock Accounts of the Engineering and Wireless Branches of the Posts and Telegraphs Department.

A brief account is also given of the working of the Department of Supply, Industries and Food, which serves these three and numerous other departments of Government.

## B.—PUBLIC WORKS STORES

554. *Administration and Control.*—The general administration of all the stores of a Public Works division, under the headings, stock, tools and plant, and road metal, is vested in the Divisional Officer, on whom primarily devolves the duty of arranging, in accordance with the rules of the Government concerned, for (i) the acquisition of stores, (ii) their custody and distribution according to the requirements of works, and (iii) their disposal.

555. The accounts of these stores are based on the fundamental principle that the cost of their acquisition should be debited direct to the final head of account concerned or the particular work for which



they are required, and if either of these cannot be determined at once, it should be kept in a suspense account pending clearance, as the materials are actually issued, by debit to specific heads of account or works.

**556. Maintenance of Stock.**—The stock of a division is sometimes kept in a single godown or yard in the charge of a store-keeper, or each Sub-divisional Officer may have a separate stock in his charge, either at his headquarters, or scattered over the sub-division in the direct custody of subordinates or other sectional officers. Again, the stock, although scattered over entire division, may be in the general charge of a single officer, and the Sub-divisional Officers may merely indent upon him, keeping all the accounts.

**557. Accounts maintained by the Executive.**—Briefly, the following is the account procedure followed by Sub-divisional Officers who hold charges of stock. The Divisional Officer follows a similar procedure in regard to stock in his own charge.

**558.** Two registers of stock are maintained, one for receipts and another for issues, in which the transactions are posted as they occur. The receipt and issue transactions are then abstracted monthly in the "Abstract of Stock Receipts" and "Abstract of Stock issues", showing the sources from which the articles are received and the account head or work to which the issues are to be debited. These are then submitted to the Divisional Officer, the entries being first posted in the Half-yearly Balance Return, which is closed as soon as the entries of the last month of the half year have been made. These Registers and Returns represent only the quantity accounts, the value accounts being ordinarily maintained in the divisional office.

**559.** These abstracts of receipts and issues are completed in the divisional office by valuation of the quantities and incorporation of adjustments on account of manufacture operations, storage charges and incidental charges, such as those for carriage, loading and unloading of stock materials.

**560. Half-yearly Register of Stock.**—The monthly transactions of stock of the sub-divisions as brought out in the monthly abstracts of receipts and issues, together with those of the divisional office, if any, are then posted in the Half-yearly Register of Stock. This register is divided into three parts. In Part I are posted the quantities of each item and the aggregate values of the total receipts and issues for each sub-head. The closing balances of the aggregate values of sub-heads are struck at the end of each half year. Their reconciliation with the accounts is effected through Part II of the register. Part III of the register is used for the review by the Divisional Accountant of the state of affairs of the stock accounts and for orders of the Divisional Officer.

**561. Pricing of Articles.**—All articles of stock are priced at the time of their acquisition, and a rate fixed at which they are to be issued. The issue rate is fixed on the principle that there is no ultimate profit or loss in the stock account; it should provide, beyond the original price paid, for any carriage and other incidental charges actually incurred on the acquisition of stores. A separate rate known as storage rate is fixed annually for the division or sub-division on the principle that the total estimated annual expenditure on work-charged establishment employed on handling and keeping initial accounts, the custody of stock and the



maintenance of the store godown or yard, etc., is, as far as possible, recovered from the issues likely to be made during the year. At the time of closing the Half-yearly Register of Stock the Divisional Officer takes the opportunity to revise the issue rate of the articles of stock on the basis of the rates prevailing in the market, and this necessitates the adjustment of the difference in the values of stock as worked out at the existing issue rate and the issue rate fixed for the future.

**562. Stock Verification.**—In order to ensure that the stock consists of efficient and necessary articles, and that the quantity balances as shown in the accounts are correct, the articles are verified periodically, and any discrepancies are brought to the notice of the Divisional Officer. Necessary adjustments are made on receipt of orders of the competent authority.

**563. Accounts of Tools and Plant and Road Metal.**—The accounts of Tools and Plant and of Road Metal are comparatively simple as only numerical accounts are maintained, their value being debited to the final heads of account or works immediately after their acquisition. In respect of Tools and Plant, the Sub-divisional Officer in charge of the articles maintains two accounts for recording the receipts and issues respectively of these articles. The transactions appearing in these accounts are consolidated monthly in a yearly Register of Tools and Plant. At the same time the Divisional Officer maintains a register of Tools and Plant for each sub-division, which is posted from the monthly returns received from the sub-divisions. Annually, a reconciliation is effected of the closing balance in respect of each kind of article as worked out in these two registers.

**564.** In respect of Road Metal, the Sub-divisional Officer maintains a quantity account of receipts, issues and balances. A copy of the account is submitted monthly to the Divisional Officer.

**565. Audit.**—The Divisional Officer submits monthly to the Audit Office an account of the Stores transactions of the month. The audit of these stores accounts is conducted in accordance with the principles described in Chapter 19.

**566.** The Registers of Stock and Tools and Plant are audited in the Audit Office unless Government prescribes otherwise. In the latter case the detailed check is left to the Divisional Accountant and test checks are applied at the time of periodical inspection. The scrutiny of the accounts of road metal is entrusted to the Divisional Accountant, and is similarly test-checked at inspections.

#### C.—STORES AND STOCK ACCOUNTS OF RAILWAYS

**567. Administration and Control.**—The administration and control of the stores of a Railway are conducted by the Stores department of the Railway, under the supervision of a Controller of Stores. On him devolves the duty of ascertaining the needs of the Railway in the matter of materials and stores, and of arranging for procuring them in the most efficient, economical and expeditious manner possible. He is responsible for their receipt, examination and distribution to the various depots, for their custody while in charge of the Stores department, and finally for their issue on requisitions received from authorised officials. Each depot is in charge of a store-keeper who is assisted by ward-keepers in charge of each ward or section of the store depot.



**568.** The Stores department is not required to keep any general accounts of the stores transactions of the Railway. Its duties in this respect are limited to the maintenance of numerical records of stores in stock and the preparation of the initial documents of receipts and issues.

**569. Supply of Stores.**—Articles of stock are procured either (i) by purchases in Pakistan, (ii) by manufacture in the Railway Workshops, (iii) by indent on the Stores Branch of the Office of the High Commissioner for Pakistan in London or on other Embassies and Missions of Pakistan abroad.

**570. Purchase in Pakistan.**—Save as mentioned in paragraph 572, all articles required to be purchased for Railways are purchased on the condition that delivery is made in Pakistan for payment in rupees in Pakistan. Special rules have been framed by the Railway Division regulating the class of articles the supply of which must be arranged through the agency of the Department of Supply and Development. Otherwise a General Manager may arrange, by advertising for tenders, for the supply of stores required for the use of the Railway.

**571. Manufacture.**—Certain classes of materials required for the use of a Railway, as for example, castings, duplicates, signal fittings, etc., are manufactured in the Railway workshops and brought on to stock.

**572. English Purchases.**—Articles of foreign manufacture of a special or unusual character, of which suitable and economical purchases cannot be made in Pakistan, are obtained on indent on the Stores Branch of the Office of the High Commissioner for Pakistan in London or on other Embassies and Missions of Pakistan abroad.

**573. Funds for Purchases.**—It must be remembered that all Railway stores are in the first instance brought on the Capital Account of the Railway, so that, if indents are submitted for stores for revenue purposes, funds for them should be provided from capital in the first instance.

**574. Issue of Stores.**—When stores are supplied by the store depots on indents, an issue note is prepared showing full particulars of the stores supplied, the officer served, etc., and is receipted by the officer receiving the store.

**575. Numerical Account in the Store Depot.—Card Ledgers.**—The transactions of receipt and issue are posted, as they take place, in a numerical record called the "Card Ledger". A separate card is maintained for each item of stores.

**576. Daily Returns to the Accounts Office.**—At the end of each day's work a memorandum is prepared of the day's transactions and is submitted with the supporting documents to the Stores Accounts Section of the Accounts Office.

**577. Permanent Way Inspector's Imprests.**—For the purpose of ordinary maintenance, each Permanent Way Inspector is provided with an imprest of materials, the amount and nature of which is fixed by the competent authority.

**578. District Sub-Depots.**—The aggregate of the imprests in each District forms the District balance of materials, for which the District Engineer must account. Further, where local conditions, such as



distance from a regular store depot, render it desirable a sub-depot may be established at the headquarters of the District, where a limited supply of materials is kept, sufficient to carry on normal maintenance and to make recoupments of the District Permanent Way Inspectors' imprests. The balance in these sub-depots forms part of the District balance of materials.

**579. District Material Account.**—The Divisional Engineer consolidates these imprest accounts and sub-depot accounts in an abstract and submits to the Stores Section of the Accounts Office a monthly District Balance Return of Permanent Way Materials. Separate returns are sent for new and second-hand materials. Separate numerical accounts are maintained in respect of materials obtained from the store depots for specific work.

**580.** The District Engineer arranges that a certain number of items is verified by actual count each month, so that the whole District stock is verified at least once a year.

**581. Unserviceable Stores.**—After stores become unserviceable owing to depreciation, or are of obsolete pattern, or become surplus, they are not allowed to remain long in stock. They are, if possible, adapted to present requirements, but, when such action is not practicable, a special report on all such stores is made by a Survey Committee appointed by the General Manager. This Committee determines what stores should be retained in stock for possible use in future or classified as second hand or as scrap, at what rates they should be borne on the books and how they should be ultimately disposed of. Further action is taken by the Controller of Stores in accordance with the orders of the General Manager on the Committee's recommendations.

**582. Duties of the Accounts Office.**—It has been explained in paragraph 568 above that the responsibility of the departmental authorities in regard to the stores accounts is limited to the maintenance of numerical records of stores in stock and the preparation of the initial documents of receipts and issues. All other accounts work in connection with the stores transactions, as for example, their valuation, allocation of expenditure to works, etc., is carried out in the Accounts Office.

**583.** The work is done in a separate section called the Stores Accounts Section, which is located at or near the general stores magazine and the Office of the Controller of Stores. This section is responsible—

- (i) for the maintenance of priced stores ledgers,
- (ii) for the scrutiny and payment of all bills for purchases of stores,
- (iii) for the regular periodical reconciliation of figures in the different connected sets of books, and
- (iv) for the maintenance of a regular and effective system of stock verification and proper investigation of all discrepancies which it brings to light.

The Stores Accounts Officer also acts as adviser to the Controller of Stores in all matters of stores accounts and finance.

**584. Pricing of Articles.**—The receipts into stores are priced from the bills or invoices, while the issues from stores are priced from the published price lists of the Stores department. The price entered in the lists for any article is always based on the average price of that article



as shown on the receipt side of the priced ledger. But that average price—otherwise called the Book Rate—will vary with every fluctuation in purchase price; and, as it is impossible to revise the published price list according to every fluctuation of the Book Rate, a revision is made whenever the variation in price is serious.

**585. Priced Ledger.**—The Stores Accounts Section maintains Priced Ledgers, in which a separate account is opened for each item of stores for which a separate card ledger is kept in the depots. The postings in the ledgers are made daily,—(a) as regards receipts,—from the Local Purchase Order Forms, the English Distribution Statements, the Advice Notes of Returned Stores, and Issue Notes for transfers between depots and receipt from workshops, and (b) as regards issues,—from the Abstracts of Issue Notes. The ledgers are balanced after each day's new posting as regards quantities, and as frequently as is considered necessary by the local authorities in respect of values. The balancing at the end of each month is completed as regards quantities, rates and values.

**586. Reconciliation between Card Ledgers and Priced Ledgers.**—It has been explained that the Accounts office maintains priced ledgers in respect of all the stores of the Railway. It is, therefore, necessary to secure a complete reconciliation of the balance in stock as shown in the card ledgers with that shown in the priced ledgers maintained by the Accounts office. How this is done is explained below.

**587.** As each card ledger for an item of stores is filled up, the depot Store-keeper, or the Ward-keeper in charge of each section of the depot, counts the balance of the items in stock and records the actual balance as the last entry on the card, for example "balance by actual count 475". Any excess is brought on as a receipt and any deficiency entered as a *minus* receipt. A new card ledger is then opened for the item of stores and the balance by actual count is brought forward. The completed card ledger is then sent to the Accounts office for reconciliation with the priced ledgers. In the case of articles of stock where the transactions are few and long intervals elapse between the completion of each card, the verification by actual count is done at such intervals as the Controller of Stores considers advisable. In such cases the result of the verification of the balance is recorded on the card ledger which is sent to the Accounts office for verification.

**588. Stock Verification.**—Each class of stores in the custody of the Stores department is verified once a year by a staff of stores verifiers who are under the administrative control of the Accounts Officer. This verification is independent of and in addition to the periodical counts made by Ward-keepers. These stock verifiers also verify, at intervals of not more than two years, all engineering materials with Permanent Way Inspectors and District Engineers, and, at intervals of three years, the Tools and Plants of all departments of the Railway.

**589. Audit.**—Audit has to see—

- (i) that the acquisition of stores has been effected in the most economical way and in accordance with the rules and orders;
- (ii) that the quantity accounts of receipts, issues and balances of articles work up to and agree with those shown in the Priced Ledgers;



- (iii) that the value accounts are correct and that the allocation of debits to the various heads of account for the cost of stores issued is correct ; and
- (iv) that the internal system of checking the stores and the stores accounts is satisfactory.

590. Audit has specially to see that the balances in the accounts represent all stores in hand, whether in the custody of the Stores department or of other departments, and that stores are not unnecessarily charged off to works with the object of reducing the stores balances. Not only may such charging off of stores to works present an inaccurate picture of the stores transactions of the Railway, but also may affect the contribution to the Depreciation Fund.

#### D.—STORES AND STOCK ACCOUNTS OF THE ENGINEERING AND WIRELESS BRANCHES OF THE POSTS AND TELEGRAPHS DEPARTMENT

591. *Administration and Control.*—The purchase of the stores of the Engineering and Wireless Branches of the Posts and Telegraphs Department, and their custody prior to their issue for consumption, are entrusted to the Stores Branch, supervised by the Controller of Telegraph Stores, who works under the direct administrative control of the Chief Engineer.

592. The Department has a head depot at Karachi, two branch depots at Dacca and Lahore and divisional depots at the headquarters of the Telegraph Engineering divisions. These depots (*vide* paragraph 190) work independently as regards stores accounts and submit their returns, etc., relating to transactions in stores direct to the office of the Accounts Officer, Stores and Workshops.

593. *Accounts in Executive Offices.*—The Controller of Telegraph Stores is responsible that numerical accounts are maintained by all officers incharge of stores depots in respect of transactions of receipt and issue of stores and that the prescribed returns are submitted by them to the Accounts office.

594. The numerical accounts consist of a series of stock cards, one being maintained for each description of stores. Each receipt or issue of stores is supported by a voucher of receipt or issue in the prescribed form. The transactions are posted in the stock cards and the balance struck therein. The vouchers relating to the stores transactions of each day are submitted to the Accounts office on the second following day.

595. *Pricing of Articles.*—The issue rates, that is to say, the rates at which articles of stock are issued to works, are revised from time to time, on the initiative of the Accounts office, as may be necessitated by important fluctuations in the market rate, and are notified by the Controller of Telegraph Stores.

596. When a revised rate comes into force the Accounts office revises the rate of the articles as entered in its books, and makes a book adjustment for the difference.



**597. *Stores and Stock with the Divisional Engineers.***—The Divisional Engineers and Sub-divisional Officers also maintain stores obtained for use on, and released from, works.

**598.** Except for such stores as are purchased locally or obtained direct from the Department of Supply and Development, all stores are obtained either from the head depot at Karachi or from the branch and divisional depots and their value is debited under the head "Remittance" by the Accounts office. The divisional office compiles a monthly account and renders it to its Audit office, crediting the value of such stores to the head "Remittance" and debiting it to the works or services concerned.

**599.** The Divisional Engineers maintain numerical accounts of the receipts, issues and balances of all stores obtained for the execution of works.

**600. *Unserviceable Stores.***—Unserviceable and obsolete stores consist of (i) those released from works or offices, etc., and (ii) those which become unserviceable while in stock in store depots. The bulk of the former are sold locally by the officers in charge of works, and the accounts of such sales form part of and are audited with the accounts of works. A few kinds of line material and all apparatus and plant are, however, returned to store depots for disposal. A surplus Stores Committee is set up to deal with unserviceable or obsolete (i) instruments received from divisions, and (ii) line material, or apparatus and plant, borne on stock. On the recommendation of the Committee the articles are either sold by auction or sent to the workshop as scrap.

**601. *Duties of the Accounts Office.***—It has been explained in paragraph 593 above that the executive officers are responsible for the maintenance of numerical accounts of stores. All other work in connection with stores transactions, as for example, valuation, allocation of expenditure, etc., is carried out in the Accounts office.

**602.** The Accounts Officer makes all disbursements of cash, after initial check of vouchers, for purchase of stores, etc.

**603.** He is responsible for compiling the initial accounts of stores and for submission of the compiled accounts to the Audit office.

**604.** The Accounts Officer also acts as an adviser to the Controller of Telegraph Stores in all matters of stores accounts and general finance and assists that officer, in the preparation of the budget estimates and other returns, with all information in connection with book rates and consumption of stores, balances, etc., which may be available from his accounts.

**605. *Stock Verification.***—In order to secure efficiency in store-keeping, a continuous or progressive stock-taking is carried out by officers in charge of stores in such a manner that all stores are verified completely in the course of the year. The stock held in the store depots is also verified once a year by a stock-verifier working under the orders of the Accounts Officer.

**606.** Discrepancies noticed in the course of stock-taking are reported to the authorities concerned and their orders obtained for the adjustment or write-off of the excess or deficiency in stock.



**607. Audit.**—The audit of the accounts of store depots is conducted by the Accountant General, Punjab (Posts and Telegraphs), Lahore, in whose office the accounts are consolidated and incorporated in the General Accounts. It has to be seen in audit that the rules and orders relating to the incurring of expenditure, realisation of receipts and receipt and issue of stores have been complied with.

**608.** The Accountant General, Punjab (Posts and Telegraphs), Lahore, carries out an intensive test check of the stores' transactions in the office of the Accounts Officer once a year.

#### E.—DEPARTMENTS OF SUPPLY, INDUSTRIES AND FOOD

**609. Activities of the Departments of Supply, Industries and Food.**—It has been explained in the foregoing paragraphs how the accounts of stock are maintained in certain Government departments and how they undergo audit scrutiny. These and other departments consume a considerable quantity of stores; and, in order to procure these stores in the most economical way, a technical department called the Department of Supply and Industries, has been established in Pakistan. A similar department is also established in London under the High Commissioner for Pakistan.

**610.** The Department of Supply, Industries and Food effects purchases for all departments under the Central Government. Provincial Governments may also utilise the services of this Department to purchase the stores which they require.

**611.** The Department also purchases stores on behalf of the Pakistan States and public bodies on the condition that the cost of the stores (including the departmental charges) is deposited with Government in the first instance.

**612.** The function of the purchasing branches is to receive indents and to arrange for compliance with them by placing contracts with supplying firms. Orders are placed in accordance with the "Rules for the supply of articles required to be purchased for the public service".

**613.** On receipt of an indent the Department of Industries, Supply and Food arrange for supply in one of two ways—either by placing a separate order for the stores demanded, or by combining the demand with others for compliance under a "running" or "rate" contract or by supply from the stocks held by them.

**614.** There are also Regional Purchase Officers located at Lahore and Chittagong. These officers receive indents up to certain money limits direct from indentors and comply with them from sources within their local areas.

**615.** The effect of the purchase of stores for the various departments of Government by this Department may be summarised broadly as follows—

- (i) They are procured in the most economical way.
- (ii) The locking-up of capital in stock is minimised.
- (iii) The wastage of articles, which would otherwise be considerable, is much reduced.

**615-A.** As stated in paragraph 613 above, one of the sources of supply arranged by the Departments of Supply, Industries and Food is out of the stocks held by them. Certain essential stores such as Food,



Coal, Textile, Iron and Steel, etc., are acquired and stocked by Government under the control of Industries, Supply and Food Departments for distribution to Government and non-Government Indentors. The cost of acquisition of such stores including incidental charges connected with their acquisition, transport, storage, handling and distribution, etc., is booked under the Capital Major Head "87—Capital outlay on Schemes of State Trading". Each class of Stores is treated as a self-contained scheme and accounted for under a separate sub-major head under the major head noted above. The sale proceeds of the stores and their disposal by supply to Government Departments, etc., are accounted under the minor head "Deduct Recoveries" under each of the sub-major heads. A controlling officer is appointed by the Government for each scheme of Reserve Stock or Stock-piling for making arrangements for the acquisition, receipt, storage, distribution and proper accounting for such stores. The work of storage and distribution of stock is done either under the direct departmental control and supervision of the Controlling Officers themselves or entrusted to private agencies as may be decided by Government in each case. The stock holders, whether official or non-official are required to furnish monthly stock accounts to the Controlling Officers showing receipts, issues, and the balances in hand and the Controlling Officers consolidate these accounts into monthly accounts according to categories of stores for submission to the Audit Officer for audit and financial adjustment.

**616. Audit Officer, Industries, Supply and Food.**—Payment for stores obtained through the Departments of Supply, Industries and Food is made by the Audit Officer, Industries, Supply and Food, who is both Accounting Officer and Auditor of the Department. Indenting officers may not make payment direct to the suppliers; but the Audit Officer informs the consignee of the payments made for the stores purchased on his behalf, in respect of bills which do not pass through him, so that the latter may take cognizance of the liabilities for the purpose of exercising financial control against provision of funds.

**617. Settlement of Accounts.**—In his capacity as Accounting Officer, the Audit Officer, Industries, Supply and Food, raises debits for the cost of stores purchased through the Department of Supply, Industries and Food by Government officers (and also for the departmental charges which are levied for purchase and inspection conducted on behalf of Provincial Governments or for Defence and Commercial Departments), against the Account Officer of the consignee in the account of the month in which the supplier's bills are paid. These debits are passed on to the Account Officer concerned, at the beginning of the second month after that to which the transactions pertain, either through Settlement Accounts or through Exchange Accounts, as the case may be. The Account Officer accepts the debit against the account of the indenting officer and notifies the latter that he has done so.

**618. Audit.**—The payments mentioned in paragraph 616 above are made by cheques after the bills have been audited. The ordinary principles governing the audit of expenditure (Chapters 14 to 17) are applicable to these payments, special attention being paid to the audit of sanctions (Chapter 15), the scrutiny of contracts (see paragraphs 518 to 520), certificates of inspection, and certificates from the consignees of their acceptance of stores.



## CHAPTER 32.

### Posts and Telegraphs Accounts and Audit.

#### A.—GENERAL

**619. *Expenditure.***—Much of the expenditure in the Posts and Telegraphs Department is on account of pay and allowances, contingencies and works ; and the audit procedure described in the relevant chapters preceding applies to such expenditure in this Department also. This chapter deals with those branches of the work of the Department which are distinctive.

**620. *Receipts.***—The major portion of the receipts of the Department is derived from postage and message revenue which accrues chiefly from the sale proceeds of stamps. Stamps are sold at civil treasuries, either direct to the public or to vendors and the necessary credits are afforded to the Department through the Civil accounts. The duty of the departmental officers is confined, therefore, to seeing that stamps of the proper value are affixed to letters, parcels and telegrams, and that all stamps are properly defaced with date stamps so that they may not be available for use again. In the case of the Telegraph Branch, however, the Telegraph Check Branches of the offices of the Accountants General, Punjab (P. and T.), and East Bengal (P. and T.), undertake a test audit of the messages transmitted throughout Pakistan to see that stamps of the proper value have been affixed and properly defaced.

**621.** Postage on Postal articles and State telegrams is, subject to certain conditions, also paid by means of impressions of franking machines. An account is maintained with each licensee of a franking machine showing the amounts of postage paid by him from time to time in respect of postal articles or charges on State telegrams or both. The Executive is responsible for seeing that the postal articles and State telegrams have been franked by the licensee and that systematic under-payment is not going on.

**622.** In some large Telegraph Offices where National Cash Register Machines have been installed for rapid booking of telegrams the cost of telegrams is collected in cash.

**623.** In certain cases telegrams are accepted without pre-payment. Private telegrams may be booked without pre-payment if the sender has deposited with the Telegraph Office an amount varying with the number of his messages and the intervals at which the accounts are settled. A similar provision exists for Press telegrams. In the case of private telegrams, bills are prepared by the Telegraph Office, copies of which are checked by the Telegraph Check Branches. In the case of Press messages, the bills are prepared by the Telegraph Check Branches themselves. Officers of Government may, under orders of the Director General, Posts and Telegraphs, send State telegrams on credit. Bills for such telegrams are prepared by the Telegraph Office and copies of them are checked by the Telegraph Check Branches. In all these cases, an additional fee is levied for the upkeep of the account, and bills are paid in cash.



624. There are several other heads under which revenue is received in cash. Telephone revenue which has greatly increased in recent years is the main item that is collected in cash and consists of rents, call fees and royalties. Other items are commission on Money Orders and on British and Pakistan Postal Orders, receipts from other Posts and Telegraphs Administrations in settlement of message accounts, rents for wires and instruments leased to Railways and Canals, rents and royalties for Teleprinter services leased to the News Agencies, rents of carrier channel lines leased to the News Agencies, recoveries from guarantors, rents of residential buildings, etc.

625. *Audit.*—Apart from Money Order, Cash and Saving Certificate and Savings Bank transactions, the special duties summarised in the following paragraphs are undertaken by Audit in connection with Posts and Telegraphs accounts.

#### B.—TELEGRAPH BRANCH

626. *Revenue Receipts.*—(a) Dues on the "Settlement Account" with other Telegraph Administrations which exchange messages with Pakistan are calculated in the Telegraph Check Branches.

(b) The Telegraph Branch constructs and maintains all the telegraph and telephone lines and wires which run alongside the Railway lines and Canals. The wires necessary for the Railways for their own administrative telegraph system are leased to them, and rents are recovered from them at a fixed annual rate per mile of wire. Instruments for the use of Railway and Canal offices are also supplied by the Telegraph Branch on payment of rents. The executive officers supply details of the wire mileage, and also of different kinds of instruments supplied, to the Audit office, which calculates the rent and arranges for the recovery of the revenue either in cash, or by book transfer with the Account Officers concerned.

(c) Telegraph offices are also opened at the instance of a Provincial Government or local Administration, Pakistan State, or private person or body of private persons, on an annual guarantee protecting the Department against loss in working and maintaining them. Bills are prepared annually by the Audit office on data furnished by the Executive, and are adjusted by book transfer or recovery in cash, as the case may be.

(d) Payment for telegrams is made nearly always by stamps, except in places where National Cash Register Machines are installed. The stamps are issued from treasuries as postal stamps, and as the same kinds of stamps are affixed both to telegrams and to letters it is impossible to maintain an accurate account of the use of such stamps as between Postal and Telegraph work. A computation of the value of postage stamps used for Telegraph purposes is made by the Post and Telegraph Offices directly from the messages despatched. A consolidation of the computed value is made in the Telegraph Check Branches and the transfer from the Postal to the Telegraph Branch is made on the basis of such consolidation.

(e) Telephone systems are expanding rapidly. To promote the efficiency of billing for and recovery of telephone revenue accounts offices named the "Telephone Revenue Accounting Offices" have been established at Karachi, Lahore and Dacca, under the control of the Director



General, Posts and Telegraphs. The Branch Audit offices conduct the central audit of telephone revenue appearing in the accounts of the Telephone Revenue Accounting Offices. A concurrent test check of telephone accounts maintained in the Telephone Revenue Accounting Offices is conducted by a test audit staff working under the orders of the Accountants General, Posts and Telegraphs, Lahore and Dacca. The portion of the accounts of the telephone revenue which is maintained in the divisional offices is test audited in the course of audit inspections of those offices.

#### C.—POSTAL BRANCH

**627. *Postal Life Insurance Policies.***—Receipts on account of premia for Postal Life Insurance Policies are checked by a concurrent audit party attached to the office of the Director, Postal Life Insurance, by the Accountant General Posts and Telegraphs, Dacca, which is responsible for verifying that policies are issued strictly according to rules, that rates for premia are fixed in accordance with Government orders and are recovered regularly and that the rules governing lapses are followed, seeing that final claims are audited fully before payment.

**628. *Money Order Transactions.***—In the Cash Accounts received from Head Post Offices, Money Order transactions are entered in lump under special heads, the figures relating to payments being classified according to the month of issue. A detailed account of them is prepared in the Audit office under a special procedure. Audit consists in seeing that for every money order paid there is a corresponding credit at some office of issue, and that there are no excess or double payments. Every Head Office sends periodically an Issue List in which the money orders which it issues and the commission thereon are entered in detail. The commission entries in the Issue Lists for two days in a month are fully checked in audit. The total of the amounts of money orders as shown in the Issue Lists is checked by an independent total cast on a Comptometer Machine. Paid Lists are also submitted periodically in which all payments made are entered and supported by paid money orders containing payees' receipts. The amount of each order paid is not compared with the entry in the Paid List, but the amounts shown as paid in the money orders are totalled on a Comptometer Machine; and, if the total reached on the machine agrees with that in the Paid Lists, the entries in the Paid Lists are taken as correct.

**629.** The enormous number of Money Order transactions renders it necessary to divide the vouchers into suitable compartments, for facility of audit and of verification with some degree of certainty of the balances outstanding. This is secured by each month's issues being regarded as a separate unit. The payments, too, made in any month are separated according to the month of issue, and so separate Paid Lists are received according to months of issue for the payments of the month. There are thus twelve separate receipt and payment heads in the ledgers, and the credits on account of money orders issued in one month in a given circle form a distinct compartment in the accounts, and the payments or debits are classified against it. The balance of each month's issues is thus worked out. The work may be said to have been satisfactorily performed when the particular money orders composing this balance can be identified.



**630.** The vouchers received with each Paid List are sorted and arranged according to the office of issue and serial number, and then debit-checking is undertaken. This consists in marking off in the Issue List every money order for which a receipt of payment is available. After the payments for two months have been thus debit-checked against the Issue List of any month, the outstanding unpaid items are extracted. The total of these items, if the work were done accurately, should agree with the balance on the books for that month. In practice, however, differences do emerge, the book balance generally being found less owing to mistakes in the several stages of audit and adjustment, or owing to paid money orders being mislaid or lost and so left unchecked. Steps are taken to reduce this difference by overhaul of the adjustments made and tracing the charges of 'unpaid' money orders in the Paid Lists. Although the difference shows that the liability of the Department is more than that indicated in the accounts, experience shows that no special financial or account adjustment is necessary. Almost always the value of lapsed money orders (*vide* paragraph 631 below) exceeds the "unexplained" difference.

**631.** A money order remains current for the month in which it is issued and for the following month; thereafter it becomes what is technically called "void". It can be re-issued for payment to the party concerned under the authority of the Audit office. The value lapses to Government if it remains unclaimed for three financial years, but this does not prevent subsequent payments of these money orders if claims are received at a later date.

When "void" money orders are paid, they are included in a separate list instead of the ordinary Paid List, but audit is conducted in a manner similar to that prescribed in respect of ordinary money orders.

**632.** Money orders are also exchanged with foreign countries through certain specified Head Post Offices known as Offices of Exchange, and the accounts of such foreign money orders are adjusted by the Posts and Telegraphs Audit offices.

**633. Savings Bank Transactions.**—Savings Bank transactions, like Money Order transactions, are entered in the Cash Account under a Debt head; and the work of accounting is carried out in accordance with a special procedure. The transactions are very numerous.

**634.** The principal account of Savings Bank transactions received from a Post Office is the "journal", in which every case of deposit or withdrawal is shown in chronological order. All the withdrawal entries in the journal are supported by warrants of payment and the majority of deposit entries are supported by vouchers in the form of duplicates of deposit acknowledgments, index cards, etc.

**635.** The Audit office maintains a separate ledger account of each Savings Bank account opened in any Post Office. These accounts are maintained according to the Card Ledger System under which a separate card has to be kept for each account, and every transaction, whether of deposit or withdrawal, or credit of interest, is recorded in the proper ledger card as soon as intimation is received of its occurrence. The



entries in the card are made by Remington Book-keeping Machines which are fitted with devices for totalling the amount of all transactions posted in the ledger cards. As the number of Savings Bank accounts is very large, the ledger cards are divided into series, each series consisting of about 400 accounts.

636. After the transactions affecting the accounts in any series of ledger cards have been posted, the total amounts for deposits and withdrawals are transferred to a master card, which is maintained for each Head Post Office. When all the transactions of a Head Post Office including its subordinate offices, are posted completely in the ledger cards and abstracted in the master card, the totals of the amounts appearing in the latter give the grand total of all Savings Bank transactions of that office and are agreed with the corresponding amounts appearing in the Savings Bank journal.

637. A preliminary comparison is made between the amount appearing in the journal and in the Cash Account, and a final reconciliation between the total amounts of the ledger cards and the amounts appearing in the Detail Book is made through a system of Control Accounts, of which one is maintained for each Head Post Office.

638. The journals of Savings Bank transactions received from the Post Offices are checked and it is seen that the transactions are covered by rules and orders issued by competent authority, that vouchers or other documents have been submitted for every entry appearing in the journals, and that the vouchers have been prepared according to rule and constitute genuine evidence of the transactions having occurred as detailed in the accounts.

639. Interest accrued yearly on each account is calculated and a statement of interest and closing balances on the 31st March is prepared annually by the audit office from the ledger cards. To facilitate agreement a separate statement is prepared and totalled for each series of ledger cards. The correctness of the total closing balance of each series is verified by working it out independently from the figures for the opening balance of the year and the transactions of the series as recorded in the monthly master cards. This work of annual agreement is of great importance as it secures the correctness of the accounts of individual depositors.

640. At the end of every three years the ledger cards are examined, and the accounts in respect of which there have been no transactions from the beginning of the immediately preceding financial year are transferred to a register known as the Dormant Ledger. Of these accounts, those which show no transactions for the past three years are classed as Dead and notified as such to the Postmasters. No deposit or withdrawal is permissible in the case of a Dead account unless its re-opening is formally sanctioned by the competent authority. A Dormant account, if a transaction relating to it appears in the journal within six years, is re-transferred to a ledger card.

641. *Government Securities.*—To facilitate the investment of Savings Bank deposits in Government securities, the Post Office, acting as agent to the Central Government, undertakes the purchase, sale and safe custody of securities on behalf of Savings Bank depositors. The Accountant General, East Bengal, Posts and Telegraphs, Branch, Dacca



exercises on behalf of the Auditor General of Pakistan the same authority in respect of the audit of Government securities transactions as in the case of Savings Bank transactions. The audit and accounts work in connection with Government securities is conducted in the office of the Accountant General, East Bengal Posts and Telegraphs, Branch, Dacca.

**642. Cash Certificate Transactions.**—The transactions relating to cash certificates are entered in the Cash Account under a separate head and accounted for by a special procedure. The Audit office maintains a Stock and Issue Register of cash certificates by denominations in respect of each Head Office. On receipt of the duplicate copy of the invoice for supply of cash certificates to the Post Office, the serial number of each cash certificate is entered separately in the register. From the weekly lists, received from the Post Office, of cash certificates issued and discharged, the week of issue or discharge as the case may be, is posted against the particular number appearing in the register. The issues and discharges as posted in the register are then compiled in monthly proof sheets and the figures agreed with those shown in the Circle Balance Sheet in which the monthly transactions of Head Offices are entered in lump.

**643.** Audit consists in seeing that details of the lists of cash certificates issued and discharged, received weekly from each Head Office, work up to the totals entered in the monthly cash accounts, that all discharges are supported by vouchers, that the amount payable on discharge has been correctly calculated with reference to the date of issue, and that the issue registers show that the cash certificates were not previously discharged.

**644.** The balances of cash certificates issued but remaining undischarged on the 31st March of each year, as shown in the balance sheet, are verified with the actual outstandings in the issue and safe custody registers, and all differences reconciled.

**645. Customs Duty realised by Post Offices.**—Customs duty is also realised by Post Offices in respect of letter mail articles and postal parcels containing dutiable articles received for delivery in Pakistan from foreign countries. All such articles are received only through certain specified Post Offices called the "Offices of Exchange", Karachi, Lahore and Dacca. After the articles are assessed by the local Customs authorities, the Office of Exchange sends them on to the Post Offices of destination where the duty is recovered in cash at the time of delivery.

The amount of customs duty on the parcels despatched from Pakistan to certain foreign countries may with a small commission be deposited by the senders. The sums so received are converted into postage stamps which are affixed to the senders' agreements. The amount of custom duty and the Postal fee are adjusted by deduction from the revenue derived from the sale of stamps used for the purpose.

#### D.—ACCOUNTS

**646. General.**—The finances of the Posts and Telegraphs Department form part of the general finances of the Central Government. The Department is, however, a commercial department in the sense



that it is expected to meet its liabilities from its own revenues. The net profit or loss of the year merges in the general balance of the Central Government. The Department receives a rebate or pays a surcharge, as the case may be, in respect of the interest on the net profit or loss on the working of its commercial branches as determined by the accounts.

**647. Commercial System.**—Since 1925 the accounts of the Posts and Telegraphs Department have generally been based on commercial principles. The features of the system are :—

- (i) a Capital Account to exhibit the value of the assets,
- (ii) a Renewals Reserve Fund built up from contributions debited to the revenues of the Department; the Renewals Reserve Fund was formerly a Depreciation Reserve Fund first on a sinking fund, then on a straight line basis, but with effect from 1st April 1936 the accumulations in the old Depreciation Reserve Fund were transferred to a Renewals Reserve Fund, to which an annual contribution of a fixed sum is made from the Posts and Telegraphs revenues;
- (iii) Suspense Accounts, in which are recorded the transactions relating to the purchase and consumption of stores and the transactions relating to manufactures, etc., undertaken in Departmental workshops; and
- (iv) the exhibition of the true or commercial profit or loss on the working of each of the four branches of the Department, namely, Post Office, Telegraphs, Telephones and Radio; the Department bears all charges incurred on its account in other departments and receives credits for all services rendered by it to other departments.

**648. Capital Account.**—The capital outlay of the Department, including outlay on renewals and replacements, is recorded under the major head "69-Capital Outlay on Posts and Telegraphs" outside the Revenue Account. The outlay on renewals and replacements is subsequently set off against an equal amount transferred from the Renewals Reserve Fund. Prior to 1st April 1933, however, only such portion of the outlay on renewals and replacements as was debitable to the Depreciation Reserve Fund was being met from the fund, the remaining cost of replacements being met from interest bearing advances from the Central Government. The reconstituted Capital Account started with the depreciated values of the assets existing on 1st April 1925 and includes the total subsequent capital outlay on the acquisition or construction of new assets and the total of interest bearing advances obtained (during the years 1925-26 to 1932-33) from the Central Government for the rehabilitation of the assets existing on 1st April 1925.

**649. Deleted.**

**650. Interest.**—Interest is payable on the total capital outlay whether financed from Loan funds or Revenue.

**651. Records of Assets.**—Accurate numerical records of all capital assets are maintained by the Executive, and the Audit office also maintains a series of financial registers connected with the Capital Account.



**652. Renewals Reserve Fund.**—The Renewals Reserve Fund Account for the renewals and replacements of wasting assets is included in Section "P-Deposits and Advances" of the Accounts. Credits to this Fund are made by annual provisions set apart at a fixed rate from the revenues of the Department and do not include interest on its balances; interest on the balances is taken as an item of receipt of the Department. The debits consist of the appropriations made to meet the cost of all replacements and abandoned assets.

**653. Revenue Account.**—Revenue realisation and revenue expenditure (other than interest charges) of the Department are booked under the major head "XIX—Posts and Telegraphs" which is divided into a series of abstracts and sub-divided into a number of detailed heads. The portion of the capital expenditure debitible in the Revenue Section of the accounts is explained in paragraph 648 above. It is important to note that a large amount of revenue expenditure of the Department relates jointly to two or more of the four branches, namely (i) Post Office, (ii) Telegraphs, (iii) Telephones and (iv) Radio. The arrangement of the account is such that receipts or expenditure relating solely to one branch are exhibited separately, while those relating to more than one branch are isolated for subsequent apportionment between the branches concerned. As mentioned above the Revenue Account bears charges of the contribution to the Renewals Reserve Fund.

**654. Adjustment of Interest Charges.**—The interest on the capital outlay of the Department is recorded under the major head "20-Posts and Telegraphs—Interest on Debt".

**655. Profit and Loss Account.**—To show in a concise form whether the working of the Department shows a commercial gain or loss, the Profit and Loss Account of the Department is prepared annually, exhibiting the Gross Receipts and Working Expenses and also inter-branch adjustments, interest on capital outlay, etc. It shows the results separately for the different branches, namely, (i) Post Office, (ii) Telegraphs, (iii) Telephones and (iv) Radio. With effect from the accounts for 1929-30 the figures of expenditure and receipts relating to the purely non-commercial activities of the Radio Branch were shown separately in the Profit and Loss Account and the corresponding figures relating to the commercial activities of that Branch were merged in the account of the Telegraph Branch proper. With effect from the accounts for the year 1952-53, the figures of expenditure and receipts relating to the Radio Branch are shown separately under that Branch itself in the Profit and Loss Account.



**CHAPTER 33.****Accounting for and Audit of Railway Receipts and Expenditure****A.—GENERAL ORGANISATION**

**656. Railways—Ownership and Management.**—The Railways in Pakistan are owned and worked by the Government, except the branch lines from Khanpur to Chachran and Bahawalnagar to Fort Abbas which are owned by Bahawalpur State but worked by Government. The Central controlling authority in respect of all the lines is vested in the Railway Division of the Ministry of Communications.

**657. Railway Finance.**—With effect from the accounts of 1924-25, the finances of Indian Railways were separated from the General finances of the Central Government. The most notable features of this separation were, *firstly*, the fixing of a definite annual contribution from Railways to General Revenues,\* calculated with reference to the capital outlay on the Railway system and the profits earned by it, and *secondly*, the establishment of Reserve and Depreciation Reserve Funds for Railways. This departure was accompanied by considerable changes in the accounting system. The most important of this departure was that the amount transferred to the Depreciation Reserve Fund was debited to the head "Working Expenses" instead of the actual cost of renewals and replacements.

On the establishment of Pakistan as an independent State, finances of the Pakistan Railways were again amalgamated with the General Finance and the Reserve Fund was abolished. The Railway Depreciation Fund has however been retained.

**658. Separation of Accounts from Audit.**—About the same time an experiment was made of the separation of Railway accounts from audit. The system was first introduced on the East Indian Railway from 1st December 1925, and as the results proved satisfactory, it was by degrees extended to other State-managed Railways.

On the establishment of Pakistan as an independent State, Railway Accounts and Audit were temporarily amalgamated but again separated with effect from 1st July 1949.

**659.** Under the separation of finances, a representative of the Finance Department was appointed as a member of the Railway Board and designated Financial Commissioner of Railways. In this capacity he took over the responsibility for the compilation of all the accounts for the Indian Railways from the Auditor General with effect from 1st April 1929. From this date a headquarters accounts establishment under the Financial Commissioner was created.

\*The expression "General Revenues" occurring in this and other paragraphs of this chapter means the revenues of the Central Government as distinct from Railway revenues.



The responsibility for the compilation of all the Accounts for the Pakistan Railways devolves on the Financial Adviser, Communications and not on the Railway Administration as was the case in undivided India.

**660.** The separation of accounts from audit involved, *firstly* an internal check—the primary function being to assist the executive—and *secondly* an external test check, called statutory audit.

**661. Statutory Audit.**—As a result of the separation of accounts the Auditor General is no longer responsible for the compilation of the Railway accounts; but he incorporates in the Combined Finance and Revenue Accounts of the Central and Provincial Governments in Pakistan the compiled accounts of Railways prepared by the Financial Adviser, Communications. His responsibility for the audit of the accounts of Railways is briefly as follows :—

- (i) It extends, in respect of expenditure transactions, to all expenditure incurred in Pakistan and abroad.
- (ii) In respect of receipts, it includes receipts of Pakistan Railways, whether under construction or open to traffic; and it covers receipts relating to accounts of manufacture.
- (iii) It includes stores and stock accounts, to the extent explained in Chapter 31.

**662. Deleted.**

**663.** It may be mentioned that, so far as Railway Accounts are concerned, Audit has no power of directing recovery of sums improperly disbursed, but is bound to bring to the notice of the Accounts' Officer concerned all payments which are irregular or inadmissible. It is for the latter to initiate action in order to regularise the expenditure or to effect retrenchment.

**664.** The audit work which as summarised above is entrusted to the Director of Audit, Railways, who is, in addition, responsible for the preparation of the Report on the audit of the Accounts including the Appropriation Accounts of the Railways compiled by the Financial Adviser, Communications.

**665.** This statutory audit is a supervisory audit, the main object being to ensure that the system of accounts used by the internal check authority of Pakistan Railways is correct, that the method of check applied at every stage of the accounts is sufficient, that the accounts are maintained and the checks applied with due accuracy, and that arrangements exist in the Accounts offices to ensure attention to the financial interests of the Railways on the part of all concerned. This object is secured by a percentage check applied to the vouchers and connected accounts records of the Accounts office and by inspection on the spot of initial records and documents in the offices in which the transactions originate.

**666.** For the efficient conduct of statutory audit, the audit staff must acquire a detailed knowledge of the working of the whole financial system of Railways, and in particular of the accounts work and of the methods of internal check as applied by the Accounts offices. Some of the main



principles of Railway accounting are summarised in this chapter in order that the main features may be briefly indicated towards which the attention of a statutory auditor should be directed.

**667. Financial and Audit Control.**—All receipts and expenditure of Railways form part of the revenue and expenditure of the Central Government and are subject to the same principles of financial and audit control as other receipts and expenditure of that Government.

## B.—ACCOUNTING AND INTERNAL CHECK.

### I.—GENERAL.

**668. Main Divisions.**—The following paragraphs explain briefly the general principles under which the accounting and internal check in regard to—

- (a) Capital Expenditure
- (b) Revenue Expenditure, and
- (c) Receipts

are conducted by the Accounts Department in Railways.

### II.—EXPENDITURE ON CONSTRUCTION OF NEW RAILWAYS.

**669. Provision of Funds for Capital Expenditure.**—The main sources from which funds are provided for capital expenditure on Railways are—

- (a) loans from current surplus general revenues or cash balances accruing from previous surpluses ; and
- (b) amounts borrowed in the open market.

**670. Programme of Capital Expenditure.**—The following procedure is followed in determining the programme of capital expenditure on Railways. The entire amount required for Railway construction expenditure in any year, is set out in an annual estimate the limits of which are determined on the one hand by the funds which can be made available from the sources mentioned in the preceding paragraph and on the other by the capacity of the Railways to spend the money profitably and economically within the year. Some time before the preparation of the budget for the next financial year, a careful forecast is made of the probable requirements under these two heads. The amount for which the programme is to be prepared being decided, the apportionment of this amount between the two Railways, irrespective of the sources from which the funds are to be provided, is then settled by the Railway Division on estimates in which the Railway Administrations intimate their requirements for the ensuing year.

**671.** All proposals for expenditure on the construction of new Railways are submitted for the sanction of competent authority supported by estimates ; and ordinarily sanction is not accorded till such estimates are received and considered.

**672. Check against Construction Estimate.**—The construction estimate for a new Railway, after it has received the sanction of Government, becomes the authority for the Financial Adviser and Chief Accounts Officer to pass expenditure on the project up to the amounts



sanctioned under the several heads and sub-heads of the estimate, and it is his duty to bring to the notice of the Engineer-in-Chief or other administration officer in charge of the work the fact that the provision under any head or sub-head is being or is likely to be exceeded, immediately this becomes apparent. For this purpose he keeps a register in which is recorded from month to month the expenditure actually incurred against the sanctioned provision under each head and sub-head.

**673.** The Engineer-in-Chief has power, subject to certain limitations, to transfer anticipated savings under certain heads to meet probable excesses under others. If any excesses occur which cannot be regularised by the Engineer-in-Chief, or if the Engineer-in-Chief is satisfied that there is reasonable probability of such excesses occurring, a reference must immediately be made to the Railway Division, accompanied if necessary by a revised estimate, with a full explanation of the causes which have led or are likely to lead to the excesses.

**674. Check against Budget Provision.**—In addition to the control exercised over the total construction expenditure on railway by means of the construction estimate, there is the further control to be exercised over the expenditure in any year with reference to the budget provision for the year. Funds for the year for capital expenditure on all Railways are allotted to the Railway Division, which distributes them between the two Railway Administrations.

**675. Deleted.**

**676. Deleted.**

**677. Deleted.**

**678. Control over Capital Expenditure.**—Expenditure against provision of funds under the Capital account is closely watched in order to ensure on the one hand that the total provision for both the Railways is not exceeded and on the other that lapses of the allotments for both the Railways combined are minimised.

**679.** The Financial Adviser and Chief Accounts Officer accordingly sees that the amount allotted to the Railway is not exceeded, and assists the General Manager and the heads of departments by issuing warnings to them as soon as the records show that there is a probability of an excess over the sanctioned allotment or that portion of it which is entrusted to the head of the department concerned. He also brings to the notice of the Administration the likelihood of any portions of the allotted amount not being spent during the year, in order that the amount no longer required may be definitely surrendered so that it may be placed at the disposal of some other Railway which is in urgent need of additional funds.

**680. Check over Expenditure in a Construction Division.**—The expenditure brought to account by a Divisional Officer of a Railway under construction is audited on lines which approximate very closely to those which have been indicated in Chapter 30 in respect of expenditure brought to account in an ordinary Public Works division.



## III.—EXPENDITURE ON OPEN LINES.

681. *Sanction and Provision of funds.*—As in the case of lines under construction, before any payment can be made, the work in respect of which the claim is put forward must have been sanctioned by competent authority, and funds must exist in the budget estimates of the year to cover the charge.

682. The expenditure on new works and improvements on open lines debitable to Capital Account is incurred against detailed estimates for each such work. A lump sum provision is made in the budget for each Railway Administration to meet the Capital expenditure during the financial year on all the works and audit against provision of funds is conducted in accordance with the procedure described in Chapter 16.

683. From the total sum voted by the Central Legislature for expenditure on the Railways during the financial year, a budget allotment is made by the Railway Division to each Railway Administration for ordinary revenue expenditure during the year, against which the General Manager is competent to authorise all outlay subject to the condition that specific sanction of competent authority must be separately obtained to items of expenditure on establishment or on works where under rules such sanctions are necessary. The fact that a charge which requires a special sanction has been included and passed in a budget is no authority for its payment.

684. *Payments and Accounting.*—The system of accounting for expenditure on open lines of Railways arises from the fact that departmental officers have no concern with actual payment, which is made in the Accounts office after pre-check of the bills. Thus the duties of departmental officers on open lines are as a rule confined to seeing that claims are correctly prepared both as to quantity and quality of the work done, that proper records are kept of the initial transactions and that bills are punctually submitted to the Accounts Officer for check and payment.

685. The bills received from departmental officers, which consist of bills for pay and allowances, muster rolls, and contract certificates (or bills), for payments to staff, labourers, contractors, etc., are checked in much the same manner as such bills in non-separated Audit and Accounts offices are audited.

686. There is a modified form of check of Railway establishment bills, but the difference is not sufficiently important to warrant detailed explanation.

687. Before submission to the Accounts office, the bills, so far as they relate to revenue charges, are posted into departmental allocation registers, and so far as they relate to capital expenditure, into the detailed works registers maintained in district or divisional engineering offices. The object of these registers is to keep heads of departments informed of the progress of expenditure against the estimates and allotments, and they are required to be sent to the Accounts office once a month for reconciliation with the corresponding allocation and works registers maintained in that office, which are posted from the checked bills.



On Railways where the Divisional system has been introduced, separate registers are not maintained by the departmental officers.

**688. Workshop Expenditure.**—Workshop expenditure is recorded under suspense heads of the Capital account, which are relieved only when actual issues are made to Capital and Revenue works and services. The primary business of the workshops is to repair locomotives, carriages and wagons ; some of the shops also manufacture spare parts, underframes, etc. The actual cost of manufacture is calculated and is transferred to the accounts of the consuming department concerned. The essential functions of internal check are to ensure the correct calculation of the cost of each job and to watch the recovery of this cost from the department or person for whom the work is done.

**689.** All work done in a workshop except ordinary maintenance and repairs must be carried out against a duly sanctioned estimate such as is required in the case of engineering Capital and Revenue works. The estimates are, of course, treated purely as estimates, the actual cost of the work being debited to the departments concerned. When work is undertaken for private parties, the amount of the estimate must be deposited before the work is taken in hand. Estimates for petty jobs are not necessary within certain limits fixed by the General Manager.

**690.** Every requisition for work is accompanied by a Workshop Order, so that the first essential account form is a Work Order Register, showing the work undertaken, the time taken in the completion of the job, and what the job has cost. The register is maintained by the Accounts Officer attached to the workshop.

**691.** Workshop expenditure falls under two heads,—

(a) labour, and

(b) stores drawn from stock to be used in the process of manufacture.

**692.** For the accounting of payments to labour, a daily muster roll, an allocated abstract of labour, and a register of unpaid wages are kept. The muster rolls or labour pay-sheets are submitted to the Accounts office for payment, and the amounts due are carried into the allocated abstract of labour which shows the total daily expenditure against each particular job. The stores consumed in the process of manufacture are in a similar manner carried into an allocated abstract of stores used on each particular work.

**693.** The charges against each job are collected together in what are known as Outturn Statements.

**694.** In addition to the direct charges for labour and stores, there are certain items of expenditure of a general nature, known as "on-cost", such as wages of mechanics, apprentices, mistries, bhishties, sweepers, gatekeepers, etc., which cannot be allocated directly to any particular job. Expenditure of this nature is distributed proportionately over the several works entered in the Outturn Statement.



695. These statements are then "accepted" by the departments of the Railways, or private parties, as the case may be, and the value of the work done is credited to "Workshop Suspense" on the authority of such acceptances.

696. The Accounts Officer attached to the workshop submits to the Chief Accounts Officer monthly an Account Current showing the state of affairs of the workshop, that is, what the shop owes and what is owing to it. In order to carry the entries from the Account Current to the general books of the Railway, the transactions are passed through journal entries which are known as Capital Journal Entries and Revenue Journal Entries.

697. The balance of this Account Current represents the cash and stores expended on jobs awaiting adjustment. This balance must be analysed and full details posted in a register to facilitate a regular and systematic clearance of the "Workshop Suspense" Account. The proof of the balance must be complete at the end of each year and a certificate to this effect given in the Accounts.

698. The check of recoveries is comparatively simple, as the vast majority of these are from other departments and the recovery in such a case is made by book adjustment in the Accounts office. The rule of prepayment for work done for private persons simplifies the check of cash recoveries.

#### IV.—RAILWAY RECEIPTS.

699. *Sources of Revenue.*—The revenue of Railways is earned almost wholly from the transport of passengers and merchandise, and is realised through the agency of booking and goods clerks employed at stations where the initial transactions are brought to account. Other sources of revenue are of minor importance.

700. The rates and fares in accordance with which traffic is accepted have to be kept within certain maxima and minima fixed by Government.

701. In return for payments received, Railways issue tickets or vouchers, differing in form according to the description of traffic carried, which entitle the holders to the services of the Railway for the conveyance of passengers or goods. These vouchers form the basis of the Railway accounts of receipts. Only one payment is made even if the services of more than one Railway are utilised.

702. *Accounting for Revenue.*—The Accounts Officers have to see—

- (i) that the person to whom the service is rendered pays the proper amount,
- (ii) that the Railway servants receiving payment correctly account for this amount, and
- (iii) that, if more than one Railway render the service, the receipt is properly distributed between them.



**703. Coaching Traffic.**—In the case of passenger traffic, the first duty is facilitated by having the fare printed on the ticket in most cases. In the Accounts office a certain percentage of the amounts entered on the blank tickets and on the parcels or luggage vouchers are checked. It is necessary, however, further to ensure that no passenger travels without a ticket, that he does not travel in a carriage of a class higher than that for which he has paid, and that no parcels or luggage are allowed to be removed from the Railway premises until the cost of their carriage has been paid. These have to be checked by travelling ticket inspectors and by officers inspecting stations.

**704.** The tickets supplied to stations by the Accounts office are, as a precaution against fraud, machine numbered in progressive series. The station master or booking clerk is held personally responsible for the stock of tickets in his custody, and all missing numbers which cannot be properly accounted for are placed to his debit.

**705.** The most important original record at a station is the Trains Cash Book, from which all other returns are compiled. Payment is made at the time of issue, either in cash or by credit note, for tickets issued by station masters. The amount so collected is entered in the daily cash book of the station, the receipts being classified under the various descriptions of coaching traffic.

**706.** Except in the case of stations which are required to remit their earnings direct to the local treasury, the entire collections of the day are sent to the Cashier of the Railway by the first train passing station in which a travelling cash safe may be conveyed after the day's work is finished, and no balance of cash may be retained by a station master without special orders. The money is sent under cover of a remittance note and the Cashier's acknowledgment is recorded with the station counterfoil of the remittance note.

**707.** In addition to the Trains Cash Book a "Parcels Inwards" book is kept up for record of all parcels received at a station for delivery, whether they are "Paid" or "To pay". The receiving station is responsible for recovery of all undercharges on parcels before delivery.

**708.** The most important coaching return submitted to the Accounts office is the Coaching Balance Sheet which enables a watch to be kept over the prompt realisation of outstandings. The debits consist of traffic earnings of the month, undercharges, excess bookings, and miscellaneous transactions as detailed in the various returns submitted by the station, and the credits consist of the cash sent to the Cashier and any special credits. The balance represents the amount of outstandings to be collected by the station, such as freight and demurrage charges on undelivered parcels, etc. All errors discovered in checking, and the correct balance, are intimated to the station master; and the next balance sheet of the station has to open with the "checked" or correct balance.

**709. Goods Traffic.**—Although the forms used and returns prepared in accounting for goods receipts may differ from those used for coaching, the principles remain the same. The money collected for freight is entered in the Goods Cash Book. Goods are despatched under



"Invoices" and the station is required to keep up "Goods Outwards and Inwards" books in which full particulars of invoices are entered. From these primary books returns are prepared and submitted to the Accounts office together with the monthly "Balance Sheet".

**710. Local and Other Traffic.**—The internal check of all earnings, whether local or foreign, is conducted in the Accounts office of the Railway concerned.

**711. Traffic Book.**—A Traffic Book is maintained in the Accounts office separately for coaching and goods; it brings together, through the summary at the close of the month the whole of the traffic earnings of a Railway, both local and foreign, under the several prescribed heads of account, namely, Coaching, Goods, Steamboat, Telegraph and Sundries. It shows also the opening and closing balances of the home line stations and of the Accounts office with the various debits and credits of each, and it records the progress of adjustment of through traffic transactions with the lines with which it clears traffic. It further shows the unadjusted balances on these accounts, which should be susceptible of verification with the balances in Registers of Unaccounted Invoices and Way-bills. From the Traffic Book the figures of receipts under the prescribed heads of account are carried into the Journal and finally into the General Books of the Railway.

**712. Travelling Inspectors of Accounts.**—The check exercised by the Accounts office is limited to an examination and comparison of the returns, etc., sent in by stations. In order that a check may be exercised at stations over the initial accounts which do not come under the scrutiny of the Accounts office a special staff of Inspectors is maintained. These Inspectors are constantly moving along the line and are required to devote their attention to seeing that the books and records are kept in a proper manner, that the cash arrangements are in order, and that irregularities taken up receive prompt attention.

### C.—STRUCTURE OF RAILWAY ACCOUNTS.

**713. Main Headings of Railway Accounts.**—The Accounts of Railways comprise—

- (i) Account of net gain or loss on the working of State Railways as a whole;
- (ii) Capital Account;
- (iii) Revenue Account;
- (iv) Account of Interest Charges;
- (v) Depreciation Reserve Fund Account;
- (vi) Account of Miscellaneous Railway Receipts; and
- (vii) Account of Miscellaneous Railway Expenditure.

These are explained in the following paragraphs.

**714. Account of Net Gain or Loss on the working of State Railways.**—This is the main account, and all other accounts work up to it. It brings together the capital invested on each Railway which is financed by Government and the net revenue receipts of the year, and from these



deduces the percentage return on the capital expenditure. The final net gain or loss to Government on the financial results of the year's workings is then worked out for each Railway, and lastly, the final net gain for all Railways.

715. *Deleted.*

716. *Deleted.*

717. *Capital Account.*—This Account sets out in detail the capital expended on the construction of Railways, from funds provided in the Railway Programme, and to this is added the expenditure separately met from Central Revenues, working to the total construction expenditure on Railways. Finally, it deduces the capital outlay on each Railway, on which the percentage of the return of net Revenue Receipts is calculated. The Account of capital outlay is brought up to date every year by the inclusion of actual expenditure incurred against the year's programme of capital expenditure.

718. *Revenue Account.*—This Account shows in detail the Gross Revenue Receipts, Working Expenses and Net Revenue Receipts. The main sources of revenue have already been indicated in this chapter. The working expenses comprise all expenses not debitable to Capital Account. The contribution to the Depreciation Reserve Fund and the expenditure incurred from that Fund on renewals and replacements are exhibited separately under Working Expenses. The latter, as an appropriation from the Depreciation Reserve Fund, is deducted to bring out the final debits to Working Expenses on account of depreciation during the year.

719. The difference between Gross Revenue and Working Expenses represents the Net Revenue.

720. *Account of Interest Charges.*—This Account bears the liability for interest, etc., on the entire capital outlay on Railways. It shows the interest on debt, that is, on specific loans raised by the Central Government, and on the outlay that has been met from non-specific debt or from Revenue or from other sources. The total amount under this account is finally debited to the Railway Revenue Account.

721. On the separation of Railway Finances from General Finance, a Depreciation Reserve Fund was started with effect from the 1st April 1924 to provide for the cost of renewing units of all wasting assets with the exception of formation, fencing and ballast and also for meeting the cost of abandonment of assets without replacement. The scope of the Fund has since been altered and subject to certain monetary limits and exceptions detailed in the Departmental Codes, it meets the cost of renewals, replacements or abandonment of most assets. The Depreciation Reserve Fund Account sets forth the amounts received into and withdrawn from the Fund during the year, and also brings out the balance in the Fund at the close of the year. (See also paragraph 718.)

722. *Deleted.*

723. *Deleted.*



**724. Account of Miscellaneous Receipts.**—This Account sets forth the interest accruing on the balances of the Railway Depreciation Reserve Fund and other Miscellaneous receipts which cannot be allocated to specific Railways.

**725. Account of Miscellaneous Expenditure.**—This Account sets out the expenditure incurred by Government on certain items which cannot be allocated to specific Railways, such as outlay on surveys which, when the line is constructed at some future date, will be transferred to the Capital Account of the Railway; and the cost of the control exercised by Government over Railways through the Railway Division, the Financial Adviser, Communications, the Director of Railway Audit, the Government Inspector of Railways.

#### D—RELATIONS BETWEEN GOVERNMENT AND COMPANIES

**726—735. Deleted.**

#### E—RELATIONS BETWEEN GOVERNMENT AND PRIVATE COMPANIES

**736. Deleted.**

#### F—FEDERAL RAILWAY AUTHORITY

**737. Deleted.**



## CHAPTER 34.

### Audit of Defence Services Accounts.

**738. Nature of Audit.**—The present system of statutory audit of the accounts and financial transactions of the Defence Services is a necessary result of the Military Accounts system, in which there have never been combined offices of Accounts and Audit subordinate to the Auditor General, except for some time in Pakistan : The whole of the accounting and internal audit work is conducted by the Military Accounts Department ; and statutory audit is merely superimposed upon this organisation in order to enable the Auditor General to carry out his statutory duties in regard to the audit of the Defence Services expenditure.

**739.** The statutory audit is a test audit. It is conducted by the Director of Audit, Defence Services, who is assisted by a Deputy Director, Assistant Directors. The Director of Audit, Defence Services, audits all sanctions of the Ministry of Defence and Ministry of Finance (Military) scrutinises all Codes and Regulations issued for the use and guidance of the Military Accounts Department, and prepares annually a Report on the Appropriation Accounts of the Defence Services. The audit in the Commands is conducted concurrently and it is seen that the accounts of the Defence Services, as included in the Combined Finance and Revenue Accounts, are a correct presentation of facts, and that they represent money that has really been spent in the manner in which it is shown to have been spent.

**740. Central Audit and Local Audit.**—The test audit may be broadly divided into (i) central audit and (ii) local audit.

**741.** In the office of each Controller of Military Accounts there is a central audit staff which tests the work done by the office of the Controller. The test audit is applied in every year to the accounts of one month of each of the sections of that office, different months being selected for different sections.

The detailed procedure for the audit of each section has two stages.

The first stage is the audit of vouchers against rules and orders. These require special study ; and the audit staff has therefore to know the various Pay and Allowance, Pension, Passage and Financial Regulations of the Army in Pakistan, Military account and audit rules, as well as the various Regulations, Act and Instructions that govern military service and discipline.

The second stage consists of—

- (i) the test check of classification of vouchers relating to each section,
- (ii) the verification of posting of vouchers into the detailed compilations,
- (iii) the check of the posting of totals of detailed heads into the sectional compilations.



**742.** The accounts are compiled centrally under a mechanical accounting system with reference to slips called "punching media" on which classification is recorded. The check over the punching media is exercised along with the audit of vouchers. A test check is exercised for verification that the punching media are correctly posted in the compilation. It is also verified that the checks prescribed to ensure the correctness of the accounts compiled mechanically are adequate and are actually carried out.

**743.** The duty which falls to the test audit staff when conducting audit locally is to visit combatant units, Ordnance Depots, supply depots, remount depots, dairy farms, hospitals, and other formations, and to test those of their original accounts records which are not submitted to the Defence Accounts Officer concerned but are checked locally by a staff deputed by him for the purpose. This work resembles that done by the local inspection staff of a Civil Accountant General, as described in Chapter 36, with this difference that the staff of the Director of Audit, Defence Services not only reviews the work of the units and formations themselves, but also conducts a test check of the audit already conducted by the Military Accounts Department.



## CHAPTER 35.

**Commercial Accounting and Auditing as applied to Government Concerns.**

**744. Introductory.**—Commercial enterprises of the Central and the Provincial Governments are generally not primarily profitmaking. Some commercial undertakings are started for the purpose of ascertaining whether the articles to be manufactured can be manufactured in Pakistan and turned out at a price which will compare favourably with the price of imported articles of a similar type. Other concerns are in the nature of service departments which distribute their outturn at cost to Government departments.

**745.** The majority of Government commercial enterprises are manufacturing undertakings. They purchase raw materials for conversion into finished articles for issue to other Government departments or for sale to the public. The raw materials differ so much in form that no uniform system of accounting can be laid down as being applicable to all cases.

**746. Initiation of Commercial Accounts.**—The responsibility for the introduction of a commercial accounting system rests with the Finance Department of the Central or the Provincial Government, but a commercial accounting system will not be introduced without consultation with the Audit Officer concerned. The Audit Officer is responsible for seeing that the system that may be adopted conforms to the fundamental principles of accounts and audit, both ordinary and commercial.

**747.** An accounting system to be of the greatest use must be framed in such a manner as will provide the Management of the concerns with information as to the details of the transactions of the concerns as well as the financial results of the operations. Such information will be of primary value to the Administration.

**748. General Principles of Accounting.**—Commercial accounting is the art of recording transactions relating to cash and stores in books of account correctly and in a regular and systematic manner.

**749.** The objects are—

- (i) to have permanent records of all transactions, and
- (ii) to show the effect of each transaction and the combined effect of all transactions upon the financial position of the commercial concern.

**750.** The General Ledger is the most important book in commercial accounting. Portions of the Ledger called the Cash Book and Day Book are bound up almost invariably in separate books for the sake of convenience, though the totals of the accounts in these books are brought into the accounts in the Ledger proper. The whole of a concern's transactions are posted from the books of original entry, namely Day Books and Journals, into the Ledger, but in a summarised and classified form. The Ledger is further sub-divided into—

- (a) Creditors' Ledger, recording the transactions of the concern with its creditors for purchases ;



- (b) Debtors' Ledger recording the transactions of the concern with its debtors for sales ;
- (c) General Ledger, containing accounts recording fixed and floating assets such as buildings, plant and machinery, fixtures, etc., liabilities and reserves, control accounts and accounts recording profits or losses, working and overhead expenses, and other items of income and expenditure.

**751.** At the end of every trading period a Trial Balance is prepared. This consists of a classified list of balances appearing, on a given date, in the ledger or ledgers before the closing entries have been made. When this list of ledger balances is prepared, the debit and credit balances are separated by being placed in different and appropriate columns.

**752.** From this Trial Balance are prepared the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet.

**753.** A Manufacturing Account is an account drawn up for the purpose of the ascertainment of the cost of manufacture and deals with—

- (i) cost of raw materials ;
- (ii) cost of bringing these materials to the factory,
- (iii) cost of labour employed in converting these materials into finished goods ;
- (iv) expenses such as rent, rates and upkeep of factory ;
- (v) repairs to, upkeep of, and depreciation on, buildings, plant and machinery ;
- (vi) motive power.

Items (i) to (iii) represent prime cost of production.

Items (iv) to (vi) represent Works on-cost.

**754.** A Trading Account is a statement of account prepared for the purpose of showing what is the gross profit realised on goods sold after taking into account the cost of rendering such goods marketable, such cost consisting of production and distribution expenses. Goods produced are transferred from the Manufacturing Account to the Trading Account at cost, the theory being that production exists solely for the benefit of sales and that the selling department therefore takes over the factory output at actual cost price.

**755.** A Profit and Loss Account is a statement designed to show the amount of the net profit earned. To this Account are credited the gross profit carried from the Trading Account and items of revenue such as interest, commission and cash discount earned, and are debited general administration and office charges and interest on capital.

**756.** A Balance Sheet is a classified summary of the debit and the credit balances remaining in the ledgers after the Manufacturing, Trading and Profit and Loss Accounts have been prepared. On one side it contains the assets of the concern, and on the other the liabilities,



capital reserves and the balance, if any, at the credit of the Profit and Loss Account. Assets and liabilities are stated in the Balance Sheet ordinarily in the order of permanence, the fixed assets and liabilities taking precedence over the floating assets and liabilities.

757. In addition to the records mentioned above, it is necessary for every manufacturing concern to maintain Labour records, Stores accounts and Cost accounts.

758. *Relation between Commercial and General Accounts.*—In those cases where the detailed accounts of Government concerns are maintained in the commercial form, the details of the transactions do not in all cases appear in the regular Government accounts. In the case of the concerns not pertaining to a commercial or quasi-commercial department, *pro forma* accounts are maintained outside the regular Government accounts and, as stated in paragraph 17, the actual transactions entering the *pro forma* accounts except those adjusted on a purely liability basis find a place primarily in the regular accounts. In the case of other concerns, it is determined in each case what details of the transactions and workings shall appear in the regular accounts.

759. *Audit.*—Under paragraph 13 (1) (iii) of the Audit and Accounts Order, the Auditor General is responsible for the audit of all Trading, Manufacturing and Profit and Loss Accounts and Balance Sheets kept by order of the Governor General or of the Governor of a Province in any department of Government.

760. The duties of the auditor commence when those of the accountant have been completed. The accountant and his staff write up the books of account and prepare therefrom at the end of the year or half year, as the case may be, the Manufacturing, Trading and Profit and Loss Accounts, and the Balance Sheet, which are placed eventually before the auditor. In cases where the accountant is not competent to perform this work the auditor is usually called in to render assistance; but the auditor's work in assisting the accountant is quite distinct from his duty as auditor. It is impossible to lay down rules or regulations which are applicable without exception to all audits; and auditors must, therefore, use their own judgement whether the general rules given in text books are applicable to the audit in which they are engaged.

761. An auditor has frequently to accept the results of what is known as "internal control". The following are examples of what are known as internal checks: a periodical examination by the Superintendent of a concern of the cash book, vouchers or petty cash vouchers, including the additions of the cash book and petty cash book, and the balancing of the cash book periodically with the bank or treasury pass book; a periodical examination of debtor's accounts; the calling over of the postings of the day books and journal into ledgers by clerks who have no duties connected with the writing up of these books and the posting of them into ledger accounts; a system of continuous stock verification; or the checking of pay rolls by clerks who are in no way connected with the preparation of the rolls.

762. It is an important part of an auditor's duty to scrutinise the system of internal control in order to see that it is adequate in itself and as independent in character as circumstances permit, and to assure



himself that the system is being applied efficiently. The extent of the scrutiny to be applied should depend on the adequacy of the system of internal control and on the completeness and accuracy with which it is being applied.

763. Nothing in the preceding paragraphs should be construed as suggesting the abrogation of the general principles of the audit of receipts and expenditure of Government in relation to the individual financial transactions of the concern. Audit of commercial accounts by the Auditor General must always go further than the ordinary practice followed by commercial auditors in the examination of the authority for financial orders and the regularity and propriety of financial transactions.



## CHAPTER 36

### Inspections and Local Audit

#### A.—GENERAL

**764.** *Objects of Inspections and Local Audit.*—Inspections undertaken by audit and local audit fall under two main headings.—

- (i) Local inspection to assure an Audit Officer of the accuracy of the original data on which the accounts rendered to him and his audit work are based and to enable him to apply a test check to such accounts, vouchers, etc., as are not audited in the Audit office ; and
- (ii) Local audit to enable an Audit Officer to conduct on the spot a test audit of the accounts maintained in certain Government and non-Government institutions and offices.

The necessity for undertaking inspections and local audit and the procedure followed in such inspections and audit are explained briefly below.

#### E.—INSPECTIONS

**765.** *Necessity for Inspection.*—It has been explained in Chapter 10—

- (i) that the accounts and supporting documents submitted for audit consist partly of the original records and partly of copies of the original records, and
- (ii) that the audit conducted in an Audit office is largely dependent for its efficiency on the degree of care exercised by departmental authorities over the accuracy of the original records.

**766.** In order (i) to review such original records as are not received in the Audit office and (ii) to test the degree of care exercised by departmental authorities over the accuracy of such records and to see that they are maintained properly in the prescribed forms, Audit undertakes to inspect them periodically. Opportunity is also taken at this time to apply a test audit to such accounts, vouchers, etc., as are not audited in the Audit office or as cannot be checked adequately except at a local inspection.

**767.** Offices coming under this class of inspection are treasuries, Public Works divisions, Posts and Telegraphs offices, etc. Part of the work of the Outside Audit Department of an Audit office (which is treated under heading C in this chapter) also falls strictly under the present heading (heading B).

**768.** *Inspection of Treasuries\*.*—Briefly, the inspection of treasuries by the Audit Officer is conducted as follows :—

- (i) The procedure observed in the examination of claims for payments of all kinds is examined with a view to seeing whether

\*See also paragraph 136.



the various prescribed checks are exercised strictly and with intelligence, whether the prescribed registers are maintained properly, and whether the Treasury Officer himself exercises the necessary checks for which the rules hold him responsible. At treasuries the cash business of which is conducted by the Bank it is seen that the procedure prescribed for observance by the Treasury Officer is followed correctly.

(ii) It is also seen—

- (a) that the arrangements for handling cash and vouchers and stocks of forms of bills, cheques and Public Works receipt books are strictly in accordance with rules ; and
- (b) that the arrangements for dealing with tenderers of money and claimants for payments are businesslike. ✓

769. If, under the orders of the Auditor General, the audit in the Audit office of any class of vouchers paid at treasuries is relaxed and a test audit on the spot has been prescribed, this is conducted at the inspection. For this purpose, the original vouchers and other accounts documents requiring examination or verification are brought from the Audit office, and the check of these documents, previously exercised by the Treasury Officer, is reviewed completely.

770. The scope of the inspection of treasuries is extended to seeing, on behalf of the Government concerned or the State Bank of Pakistan, as the case may be, (i) that the orders issued by the competent authority regarding the custody and handling of treasure and the control of the balances are duly observed, (ii) that the standing orders relating to coins, currency, and remittances of treasure are clearly understood by the Treasury Officer and his staff and duly observed in practice, and (iii) that the registers and forms prescribed for recording the receipt and disposal of Securities are maintained correctly.

771. *Inspection of Public Works Divisions.*—The procedure followed for the conduct of inspection and test audit of the accounts of Public Works divisions is briefly as follows :—

- (i) The accounts of one month are test-audited with the initial accounts and other account records kept in the divisional office, detailed estimates and contract agreements.
- (ii) The initial accounts of cash and stock, measurement books, muster rolls, detailed accounts of works, transfer entry books, contractors' ledgers, and other account records for the entire period since the last inspection, are inspected and examined generally.
- (iii) The accounts of one or two selected works are examined in detail from the commencement, and all transactions are analysed and, if necessary, compared with the details of sanctioned estimates and with contract agreements, measurement books, accounts of stores, vouchers and other relevant documents.
- (iv) The results of the Divisional Accountant's inspections of sub-divisional offices, objections recorded in the Register of Divisional Accountant's Audit Objections, and generally the results of the Divisional Accountant's scrutiny as a primary auditor, are reviewed.



772. In some Provinces the accounts of rents and of stock and tools and plant and extracts from contractors' ledgers are not submitted to the Audit office. In such cases these accounts are also test-checked at the inspection.

773. The Inspecting Officer does not confine his attention to the audit and inspection work detailed above. He avails himself of the opportunity of assisting the officers of the Public Works Department with his advice in matters affecting the accounts or the financial regularity of transactions. He also finds scope for making suggestions bearing on the economy of public money.

774. *Inspection of Posts and Telegraphs Offices, etc.*—An inspection and test audit of the accounts of the Telegraph Engineering Divisions (including Wireless Divisions), Telegraphs Stores Depot and Workshops, Cash branches of the offices of the Heads of Circles, Cash and Wireless branches of the office of the Director General of Posts and Telegraphs and Telephone Revenue Accounting offices at Karachi, Lahore and Dacca, is conducted periodically by the Accountants General, Posts and Telegraphs, Lahore and Dacca. At the inspection it is seen that the original accounts and papers on which the accounts rendered to the Audit office are based represent facts and that the relevant rules and orders are observed. To this end one month's accounts selected by the Accountant General are test-audited, but the cash book is examined generally in all its details in respect of the entire period which has elapsed since the last inspections.

775. The procedure described in paragraph 769 above regarding the test audit on the spot of certain classes of vouchers is also followed at these inspections.

776. While inspecting Telegraph Engineering divisions the Inspecting Officer has to analyse completely and examine the accounts, since the commencement, of any one major work or two minor works selected by the Accountant General. For this purpose the Inspecting Officer takes with him the schedule dockets and vouchers relating to such works.

#### C.—LOCAL AUDIT

777. *Necessity for Local Audit.*—The main purpose of the local audit falling under this heading is to conduct a test check of the accounts for a particular period, in the discharge of the responsibility imposed on the Auditor General under paragraph 13 of the Audit and Accounts Order or undertaken by him on a "consent" basis.

778. Test audit by the Outside Audit Department of an Audit office comes under this category.

779. *General Arrangements for Local Audit.*—The Audit Officer undertakes the local audit of the initial accounts maintained in many Government institutions and offices in cases in which audit in the Audit office is not feasible and also of the accounts of local or quasi-public bodies in certain cases. For this purpose he has under him peripatetic



parties which travel about the country and conduct test audit. The Province is divided into circles, one circle being allocated to each audit party. Each party is in charge of an accountant, who is responsible for the test audit of the accounts in the circle allocated to him.

780. The classes of accounts with which this staff deals are so varied that, before taking up an audit, the staff has to study the system of accounts and books prescribed, to see why they have been prescribed and how far they fulfil the desired end.

781. *Audit of Press Accounts.*—Test audit in each Press is applied to the accounts of one month in the year by the outside or local audit party entrusted with the work in accordance with the instructions laid down by the Audit Officer concerned.

782. The audit of Press accounts involves the following items of work which are peculiar to this branch of audit and are additional to those of an Account office in the ordinary line :—

- (i) system of cost accounting,
- (ii) overtime and attendant audit,
- (iii) price audit,
- (iv) audit of outside printing work,
- (v) audit of annual accounts of Presses including *pro forma* and Depreciation Reserve Fund accounts.

783. The audit of items (i) to (iv) requires a special knowledge of the working of the different branches of Presses in all their details. The stores accounts also have special features and their audit requires corresponding special knowledge. The practical methods employed in the different Government Presses vary in some respects according to the view of the Superintendent in charge, and these have to be studied with reference to the varying local conditions. The Manuals of the various local Presses also have to be studied as these lay down the system of working, the rates of payment for the different classes of work, and the methods of computation of the value of the several items of work.

784. *Audit of Customs Accounts.*—The initial audit is carried out by a staff of trained and experienced auditors working inside the Custom Houses under the supervision of the Audit Officers concerned.

785. Audit is confined strictly to those processes which have been included in the term "Receipts of Custom Houses", the term including all receipts of every description under the Sea Customs Act. The audit embraces both audit of ships files and also the current audit of individual transactions relating to the assessment and collection of Customs revenue. The former is a primary essential, since it is the primary duty of Audit to satisfy itself that a correct procedure exists for the assessment and collection of the revenue as a whole and that the procedure is correctly and regularly observed in practice. The audit of current transactions as distinguished from ships' files is also an important means



of obtaining evidence that the procedure is being correctly observed, while in addition it is felt that such a continuous scrutiny of daily routine of the Custom House will have at least a psychological influence of definite practical value.

786. The Accountant General, Pakistan Revenues, has been constituted the co-ordinating Audit Officer in respect of Customs revenue. It is his function to ensure that there is a sufficient measure of uniformity in the audit carried out locally at the various ports. The Audit Officers concerned submit to him *annually* reports on individual cases of importance that have arisen in audit in the year and also submit a brief general report summarising the results of their audit of Customs revenue. The material thus provided is consolidated by the Accountant General, Pakistan Revenues, who is responsible for placing before the Public Accounts Committee (including in it his Appropriation Accounts and Report) any statement found to be necessary of the results of the audit of Customs revenue.



## PART V.

The Accounting Processes leading up to the Finance  
Accounts and the Combined Finance and Revenue  
Accounts

## CHAPTER 37

## Compilation of Accounts

**787. Initial Compilation.**—The initial compilation of the accounts of the Central and Provincial Governments takes place at the treasuries and, in the case of the departments whose transactions appear in the treasury accounts in lump, in the departmental offices; the subsequent compilation takes place in the several Account offices mentioned in Chapter 5. The first stage of the initial compilation is the daily accounting for the individual receipts and payments as they occur in the Cash Books and subsidiary registers of the treasury or of the departmental office. Each Provincial treasury compiles from these initial records monthly schedules of receipts and payments for each department or for each major head not relating to any particular department, separately for Central and Provincial transactions; these schedules together with the requisite vouchers are submitted to the Account office with the monthly Cash Accounts and Lists of Payments, which also are separate for Central and Provincial transactions. Central treasuries are not required to prepare separate accounts for Central and Provincial transaction; they submit to the Account office a single account, in which any transactions on behalf of Provincial Governments are shown under the appropriate Remittance heads.

Officers of the civil departments who pay their receipts into, or withdraw moneys for expenditure from, the Public Account in lump submit detailed accounts of their transactions to their respective Account offices. Some departmental officers are required to render to the Account office compiled accounts with suitable abstracts of their transactions classified under prescribed heads of account.

**788.** The procedure for the initial compilation in treasuries and departmental offices has been described in Chapters 8 and 9. This chapter describes briefly the various processes generally followed in the office of a Provincial Accountant General in the compilation of the accounts of Government transactions.

**789. Main Processes of Compilation in Account Office.**—In the office of a Provincial Accountant General the accounts for the transactions of the Central Government are kept entirely separate from those for the transactions of the Province. The Books, Abstracts, etc., maintained for the two categories of transactions are indetical in character. The accounting for Central transactions takes place simultaneously with that for Provincial transactions, and the processes described in the following paragraphs apply equally to both sets of transactions.



790. The first stage of compilation is the posting in the Detail Book of the particulars relating to Debt, Deposit and Remittance transactions appearing in the Cash Accounts and Lists of Payments submitted by treasuries.

791. The second stage of compilation is the posting in the respective Departmental Classified Abstracts of the receipts and payments shown in the schedules furnished by treasuries and in the accounts submitted by civil departmental officers. The Departmental Classified Abstracts bring together the monthly receipts and payments pertaining to each department, for the whole account circle, classified under the relevant major, minor and detailed heads of account. Separate Classified Abstracts are maintained for each department, each group of small departments or each major head or group of major heads of account not relating to any particular department or departments according to local convenience. The transactions adjustable against a department or against a major head not relating to any particular department which are intimated to the Accountant General by another Account Officer as well as all book adjustments against a departmental or other major head which are initiated in the Accountant General's office itself are also incorporated in the relevant Departmental Classified Abstracts so that the Classified Abstracts may include monthly all transactions of whatever nature connected with the receipts and payments pertaining to each department or major head of account.

After the Departmental Classified Abstracts have been completed, the Debt, Deposit and Remittance figures appearing in them are posted in the Detail Book so that the Detail Book may present for the whole circle of account the figures under the various Debt, Deposit and Remittance heads.

792. The next stage of compilation is the posting of the figures of revenue receipts and service payments from the Departmental Classified Abstracts into the Departmental Consolidated Abstracts and of the Debt, Deposit and Remittance figures from the Detail Book into the Consolidated Abstract of Debt, Deposit and Remittance transactions.

The Departmental Consolidated Abstracts show the progressive totals of revenue receipts and service payments month by month under each major, minor and detailed head of account. Separate Consolidated Abstracts are maintained for each department or major head of account or for a group of departments or major heads of account as may be found convenient.

The Consolidated Abstract of transactions under Debt, Deposit and Remittance heads shows the progressive totals month by month under each major head as well as under such minor and detailed heads as may be found necessary.

793. The final stage of compilation is the preparation of the Abstract of Major Head Totals from the Departmental Consolidated Abstracts and the Consolidated Abstract of Debt, Deposit and Remittance transactions. The Abstract of Major Head Totals shows by major heads of account the total receipts and disbursements of the account circle during and to the end of the month.



**794. *Subsidiary Accounting Processes.***—In describing the main processes of compilation, certain subsidiary accounting processes which come chronologically at an earlier stage have not been stated. These processes lead to the incorporation into the accounts of the transactions intimated to the Accountant General by another Account Officer as well as all transfer entries initiated in the Accountant General's office itself, mentioned in paragraph 791.

**795** Transactions intimated to the Accountant General by another Account Officer are adjusted through the following accounts:—

- (1) *Exchange Accounts*—Through which are passed all transactions arising in the accounts of a Defence, Railway or Posts and Telegraphs Account Officer which are adjustable in the books of a civil or a non-civil Account Officer, transactions of the Central Government arising in the books of the civil Account Officers which are adjustable on the books of other Account Officers and book transactions arising in the Central section of the account of a civil Account Officer which are adjustable in the accounts of a Province kept by another Account Officer.
- (2) *Settlement Accounts*—Through which are adjusted transactions initially taken against the balance of a Province which are eventually adjustable against the balance of another Province; or transactions initially taken against the balance of the Central Government which are eventually adjustable against the balance of a Province. Settlement Accounts are so called because the money settlement between the parties concerned is effected through the State Bank.

These transactions are first entered in Adjustment Registers and then posted in the Exchange or Settlement Account Abstract. From these Abstracts figures for each head of account affected are posted in the relevant Departmental Classified Abstracts or the Detail Book, as the case may be.

**796. *Transfer entries*,** as the name indicates, are entries intended to transfer an item from one head of account to another. The idea is in itself simple, but the procedure by which such transfers are carried out in the accounts is somewhat elaborate. The final outcome of all the transfer entries relating to a month is worked out in an Abstract known as the Combined Transfer Ledger and Abstract, in which are shown the debits and credits to be made under each head, the totals of the debits and the credits necessarily being equal. The net result of the transfer entries as worked out in this Abstract is posted monthly under appropriate heads in the relevant Department Classified Abstracts or the Detail Book immediately under the total of cash transactions and the totals under the detailed heads and minor heads affected are thus corrected.



## CHAPTER 38

## Technical Accounts

**797. General.**—The accounts of Government are based in the main on the Single Entry system. In regard to the maintenance of a set of Technical accounts called the Journal and Ledger the Double Entry system is applied.

**798.** The main purpose of the Journal and Ledger is to bring out by a scientific method the balances of accounts in regard to which Government acts as a banker or remitter, or borrower or lender. Though such balances are also worked out in the regular accounts, their accuracy can be guaranteed only by a periodical verification with the balances brought out in the Double Entry accounts.

**799.** As the finances of the Provincial Governments are separate from those of the Central Government and as the balances relating to each Government have to be worked out separately, Provincial Accountants General maintain separate Journals and Ledgers for transactions of the Central Government and of the Provincial Government.

**800. Journal.**—The Journal first sets out all the opening balances of the year, then all the transactions of the year, and finally all the closing balances of the year. As the opening entries of a year in the Journal are the exact replica of the closing entries of the previous year, the former are posted only by group heads, full details under each being available in the closing entries in the previous year's Journal.

**801.** The transactions of each month are posted in the Journal by the following entries—

- (1) Sundry Accountants Dr. to Revenue Receipts and Sundry accounts for the revenue and receipts of the month.
- (2) Service Expenditure and Sundry accounts Dr. to Sundry Accountants for the disbursements of the month.

**802.** The totals in the amount columns of the Journal at the end of each month are carried forward continuously till the end of the year when the balance is struck. The details of the balances as worked out in the Ledger are then posted in the portion of the Journal in which are recorded the closing entries.

**803. Ledger.**—The accounts which are opened in the Ledger are classified as follows :—

- (1) Opening and closing heads, *viz.*, Government, Balance.
- (2) Revenue Receipts { being the total of the transactions under
- (3) Service Expen- { Revenue, Expenditure and Capital heads  
diture { within the Revenue Account.
- (4) Capital Expenditure outside the Revenue Account.
- (5) Debt and Remittance heads which are closed to Government.



- (6) Debt and Remittance heads which are closed to Balance.
- (7) Personal Accounts of Collectors who are in account with the Accountant General including "Local Remittances in transit" and also the following special heads, namely, "Departmental Adjusting Accounts", "Departmental Accounts", "Exchange Account Abstract", "Settlement Account Abstract" and "Transfers" under which the entries on both sides must always be the same.

804. The object of the Ledger is to bring out the balances under the Debt and Remittance heads other than those which are closed to Government. The posting of Revenue, Expenditure and Capital heads is required only for the purpose of squaring the Ledger. The Revenue Receipts, Service Expenditure, and Capital Expenditure outside the Revenue Accounts are, therefore, posted by totals only, while such of the Debt and Remittance heads as are closed to Government are posted by major heads. The Debt and Remittance heads which are closed to Balance are posted in detail of ledger heads. (Each prescribed minor head under Debt and Remittance heads which close to Balance and each Collector's Account is a separate ledger head.)

805. Under the system of book keeping followed in the Pakistan accounts, all ledger heads are closed either to "Government" or to "Balance". All heads whose balances are not carried forward from year to year are closed to "Government". The balance under that head, therefore, represents the cumulative result of revenue, capital and other transactions in respect of which no separate progressive balanced accounts are kept.

806. The heads "Revenue Receipts", "Service Expenditure" and "Capital Expenditure outside the Revenue Account" are closed to "Government".

807. The Debt and Remittance heads and Personal Accounts are closed to "Balance", except that the heads "State Bank Deposits", "Exchange on Remittance Accounts", "Appropriation for Reduction or Avoidance of Debt—Other Appropriations", "Remittances adjusted on the Central Books", "Accounts between Civil and Civil", "Accounts between Civil and other Departments", and "Accounts between England and Pakistan" are closed to "Government".

808. The Ledger is opened by transfer from Balance accounts to the various Debt and Remittance heads and Personal Accounts the balances with which they closed in the preceding year's ledger. It is then posted month by month from the Abstract of Major Head Totals for transactions under Revenue, Service and Capital heads and from the Consolidated Abstract for transactions under Debt and Remittance heads. The accuracy of the postings is tested after the closing of the accounts of the year by the preparation of a Trial Balance Sheet.

809. *Verification of Balances.*—The accounts of the year are not complete until the balances upon the Ledger under the Debt heads and the outstandings under the Remittance heads have been reviewed and duly verified. The process of this verification is described in paragraph 301. The results of the verification are embodied in the Report on the Finance Accounts as "Review of Balances". The detailed review of



balances under each head includes, besides particulars about the nature of the transactions, reconciliation of accounts and acceptance of balances, all the salient facts noticed in the audit of the accounts, *e.g.*, writes-off, doubtful assets, etc. Any discrepancies noticed in the Review are carefully watched until they are settled.

**810.** The Review of Balances does not in any sense claim to represent a complete statement of the assets and liabilities of Government. Government has valuable assets in the shape of land, buildings, workshops, factories, stock and stores, etc., which are not included in these balances, whereas a commercial concern would invariably include them in its statement of assets. The great bulk of the assets of Government are of such a nature that it is impossible to place upon them a money value of sufficient accuracy to justify their inclusion in a document of the nature of a balance sheet.



CHAP. 39.] THE FINANCE ACCOUNTS AND THE COMBINED FINANCE AND REVENUE ACCOUNTS OF THE CENTRAL AND PROVINCIAL GOVERNMENTS. [811—814

## CHAPTER 39.

### The Finance Accounts and the Combined Finance and Revenue Accounts of the Central and Provincial Governments.

**811. Finance Accounts.**—It has been stated in paragraph 37 that the Auditor General has to prepare in each year comprehensive accounts of the receipts and expenditure of each Government, classifying the transactions under respective heads, and to submit them to the Government concerned, and that these accounts are designated the Finance Accounts.

**812.** As soon as the accounts of a year are closed, the Finance Accounts of each Provincial Government for the year are prepared by the Provincial Accountant General and submitted to the Auditor General for approval and transmission to the Government concerned. The Finance Accounts of the Central Government, which comprise transactions of the Central Government (Civil), Defence Services, Railways and Posts and Telegraphs Department, are compiled by the Accountant General, Pakistan Revenues, and submitted to the Auditor General for approval and submission to the Central Government.

**813.** The Finance Accounts represent an auditor's presentation of the general accounts of Government to the Legislature. The Finance Accounts of each Government and the Reports on them form a single document, and are divided into two Sections as shown below, the Report preceding the Accounts in each Section.

#### Section A—General Finance Accounts.—

Report.  
Accounts.

#### Section B—Debt, Deposit and Remittance Accounts.—

Report.  
Accounts.

The document commences with a certificate signed by the Auditor General, presenting and authenticating the Reports and the Accounts.

**814.** The Accounts portion of the document is composed of several statements, the particulars of which are as follows :—

#### Section A—General Finance Accounts.—

*Statement No. 1.*—General Abstract of receipts and disbursements.

*Statement No. 2.*—Summary of revenue and expenditure by major heads.

*Statement No. 3.*—Statement showing the distribution between 'charged' (or 'non-voted') and 'voted' expenditure.



**815—817] THE FINANCE ACCOUNTS AND THE COMBINED FINANCE AND REVENUE ACCOUNTS OF THE CENTRAL AND PROVINCIAL GOVERNMENTS. [CHAP. 39.**

*Statement No. 4.*—Detailed account of revenue by minor heads.

*Statement No. 5.*—Detailed account of expenditure by minor heads.

*Statement No. 6.*—Statement of Capital expenditure outside the Revenue Account during and to end of the year.

**Section B—Debt, Deposit and Remittance Accounts.—**

*Statement No. 1.*—Summary of receipt and disbursements by major heads.

*Statement No. 2.*—Statement showing the capital and other expenditure (outside the Revenue Account) to end of the year and the principal sources from which funds were provided for that expenditure.

*Statement No. 3.*—Statement of debt and other interest bearing obligations showing the additions to and discharges of debt etc., during the year, and the amount of debt, etc., at the commencement and close of the year.

*Statement No. 4.\**—Statement showing the application in the year of the sums appropriated from revenue and other sources on account of the several Funds.

*Statement No. 5.*—Statement of loans and advances showing the amounts advanced and repaid, interest received during the year and balances of such loans and advances at the commencement and close of the year.

**815.** The nature and scope of the Reports have been explained in Chapter 20.

**816. Combined Finance and Revenue Accounts.**—As stated in paragraph 38, the Auditor General is required to prepare annually, in such form as he with the concurrence of the Governor-General may determine, and to submit to the Governor-General, a General Financial Statement incorporating a summary of the accounts of the Central Government and of all the Provinces for the last preceding financial year and particulars of their balances and outstanding liabilities, and containing such other information regarding their financial position as the Governor-General may direct to be included in the Statement. This General Financial Statement is otherwise known as the Combined Finance and Revenue Accounts of the Central and Provincial Governments in Pakistan. These accounts which are designed to present the accounts of all the Governments in Pakistan on a common and comparable basis comprise (1) the General accounts and (2) the Subsidiary accounts, and are prefaced by an introductory note in which a brief and general description of the structure of the Government accounts is given in addition to a brief historical survey of the stages leading up to the existing financial and accounting system.

**817.** The General accounts contain a general summary of the receipts and disbursements of the Central Government and of each of the Provincial Governments, which shows all receipts on one side and all dis-

\*This statement is omitted from the Finance Accounts of the Central Government.



CHAP. 39.] THE FINANCE ACCOUNTS AND THE COMBINED [818—819  
FINANCE AND REVENUE ACCOUNTS OF  
THE CENTRAL AND PROVINCIAL GOVERN-  
MENTS.

bursements on the other, the receipts as well as the disbursements against the several heads being exhibited in parallel columns for each Government. To this are added accounts presenting the receipts and disbursements of the Central Government by major heads, and similar accounts for Provincial transactions, the receipts as well as disbursements in the latter accounts being shown in parallel columns for each Government.

818. The Subsidiary accounts give the details generally by minor heads of the figures shown in the General accounts. They also exhibit the balances at the commencement and close of the year under Debt, Deposit, etc., heads. The distribution of expenditure between 'charged' (or 'non-voted') and 'voted' is shown in lump at the end of each relevant Subsidiary account except that in regard to Debt, etc., heads such distribution is shown in a separate statement. The receipts and expenditure of the Central Government under heads  $\frac{I \text{ to } V}{1 \text{ to } 5}$  of the List of

Major and Minor Heads are also shown by geographical areas, *i.e.*, according to Provinces of origin of the revenue or expenditure. For convenience of exhibition the transactions are grouped into Sections which are further sub-divided into the Major heads of account. The Sections are distinguished by letters of the Alphabet, a single letter denoting the Revenue portion and a double letter denoting the Capital portion of a particular category of transactions. An explanatory note is prefixed to each Subsidiary account explaining the account itself and containing a brief description of the nature of the transactions and any important entries dealt with in it.

819. The Combined Finance and Revenue Accounts are compiled from the final accounts for March rendered by the Account Officers in Pakistan in the form of Working Sheets and the Statements mentioned in the Annexure to Chapter 21 of the Account Code, Volume IV. Throughout these Accounts the transactions are as far as possible presented in round sums of rupees, the transactions in England (except those under certain Debt and Remittance heads which are essentially of a sterling character) being combined with the transactions in Pakistan at the conventional rate of exchange, *viz.*,  $25 \frac{29}{32} d. = Re. 1.$



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## PART VI.

### Arrangements in respect of the Transactions of the Crown Representative.

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#### CHAPTER 40.

Paras. 820-831 (*Deleted*).



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(N.B.—This index has been compiled solely for the purpose of references and no expression used in it should be considered as in any way interpreting the paragraphs quoted therein.)

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*Note of Posting of Corrections.*

[illegible]



