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**PROPOSALS FOR DEPARTMENTALIZATION
OF
ACCOUNTS**

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Comptroller and Auditor General of Pakistan**

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MEMORANDUM ON DEPARTMENTALIZATION OF ACCOUNTS.

Back Ground of the Problem.

The existing system of maintaining the Government accounts was evolved a long time ago. It worked well enough so long as the nature of transactions was relatively simple, conditions were settled, the problems arising out of the pressing needs of an increasing pace of development were non-existent, a large body of well trained staff was available both in Accounts Offices as well as the Executive Offices and a healthy respect of financial regulations permeated the entire structure of Government.

2. With the advent of Independence the conditions changed. The traditional respect for audit and accounting functions and consequently for financial regulations appeared to vanish. It seemed to be forgotten that Government business must not only be transacted honestly but must also appear to be transacted honestly in strict conformity with the rules prescribed for the purpose. The large body of well-trained and well disciplined staff which kept the accounts not only in Accounts Offices but also in the Executive Offices was sorely decimated. Those who came over to Pakistan were unsettled physically as well as mentally and harassed by economic conditions. The better class of Accounts Officers were withdrawn from the Department and never returned in accordance with principle applicable to deputation to tenure posts. Those left behind were disgruntled and discouraged and incapable of giving the staff that leadership which might enable them to devote themselves to their work methodically and with that enthusiasm which the situation demanded. Many of the records, e.g. provident fund ledgers and service records required for proper maintenance of accounts had been left behind. Even the Code books were not available. A prolonged period of financial stringency stood in the way of necessary efforts being made to re-organize the Audit and Accounts Department and to train its staff with greater vigour.

3. The result was that the closing of accounts began to be indefinitely delayed. Large amounts accumulated under suspense heads. Such figures as were produced were not worth much. No one knew what he was spending. Audit objections kept on piling up unattended while waste, irregularities and defalcations increased.

4. As the Government machinery began to settle down the necessity for availability of reliable accounts figures began to be increasingly felt. It was found that not only day to day functions were hampered but also that in the absence of such figures a proper development programme could neither be pro-

perly planned nor the results of its implementation correctly assessed. Settlement of personal claims of Government employees was delayed causing much discontent amongst staff. In the meanwhile international aid giving agencies were showing increasing dissatisfaction with the absence of reliable data by which the economic and financial position of the country could be assessed. A pressing need for re-organization of the Accounts Department thus began to be felt.

Earlier Proposals for Re-organization

5. Proposals for re-organization began as early as 1953 when it was suggested that the system of pre-audit at the Headquarters of the Provincial and Central Governments should be abolished. In 1956 it was suggested that the Treasuries should exhibit gross payments/receipts in their schedules instead of net debits and credits. About the same time it was suggested that the system of book adjustments should be substituted by settlement of transactions by cash payments at all levels. The proposals were accepted. But the funds required for the implementation of these proposals could not be found and it was decided that the proposed changes should wait until the position in respect of men and money improved.

Appointment of Messrs. Price Waterhouse and Co.

6. As the position continued to grow worse the question attracted the specific attention of Administrative Reorganization Committee in 1959. The Committee recommended that the accounts should be departmentalised. Government accepted this recommendation and decided to appoint Messrs. Price Waterhouse and Co., a firm of Chartered Accountants, with the following terms of reference :—

- (i) To conduct an enquiry into the existing system of Provincial and Central Civil Accounts, including Supply Accounts and Public Works Accounts and to suggest such modifications in the existing system as would ensure accurate and comprehensive compilation of receipts and expenditure under the final heads of accounts with the minimum of delay and cost ;
- (ii) To suggest modification in the form and contents of final accounts compiled by the Comptroller and Auditor-General in the form of Finance Accounts, Finance and Revenue Accounts and Appropriation Accounts with a view to eliminating unnecessary details and including material that may reflect the actual performance of the management *vis-a-vis* the amount expended ;

- (iii) To prepare, if finally decided by Government, a plan for the departmentalization of accounts and introduction of concurrent audit of the same.

7. The results of the investigations by the firm have been summed up by the previous Comptroller and Auditor-General as follows :—

“They have worked for nearly two years and Rs. 1,54,515 and £. 12,894* have been spent on them. As a result of their work for the above period they have been able to produce the following two acceptable suggestions :—

- (i) Reorganization of the Sections of the Audit Officer, Industries, Supply and Food, so that work relating to Bill Section, Payment Section, Accounts Section, Internal Audit Section and Administration Section will be split.

- (ii) Departmentalization of Accounts of the Forest Department of West Pakistan Government.

The Accounts are already departmentalised in as much as the Divisional Forest Officers are themselves drawing and disbursing officers. In other words they draw money on cheques from treasuries and send compiled monthly accounts to the Accountants-General as at present should send the same to their respective regional offices who in turn will again consolidate the accounts for the various divisions in their area and send the same to the Section Officer, Budget and Accounts in the Agriculture Department. The latter will prepare a consolidated account for the whole province and send it to Accountant-General for incorporation in the monthly civil accounts. The proposed procedure of the firm thus provides for the consolidation first at the regional level and again at the Secretariat level and again at the level of the Accountant General of the whole of the Forest Department. This would not only delay the consolidation but would also result in extra cost.

8. Government have now decided to dispense with the services of the firm and have asked the Comptroller and Auditor-General to attend to the necessary improvements in the system.

*This Expenditure has since risen to Rs. 5 lacs.

Present Accounting System.

9. The present accounting system in departments other than Defence and Railways (which are already departmentalized) and Forest, Public Works, Food and Supply Departments (which are partially departmentalized) is as follows:—

The Drawing and Disbursing Officers draw up a bill and present it to the Accounts Officer at places where the system of pre-audit is in force or to the Treasury at other places. The bills are passed by the Treasuries who compile the initial accounts and forward them together with the vouchers to the Accountant-General concerned who audits the vouchers and consolidates the receipts and expenditure under the various Heads of Accounts. In case of inter-Governmental, inter departmental transactions debits are raised against the responding departments through the media of Settlement/Exchange Accounts and cleared by the Accountant-General by debit to the appropriate Head of Account. In the first week of each month, every spending officer sends to the Head of the Department or the Controlling Officer a statement giving the details of all amounts drawn by him during the preceding month. All these statements are consolidated in the office of the Controlling Officer/Head of the Department, together with the figures of book adjustments and inter-departmental and inter-Governmental transactions. A copy of the consolidated statement is required to be submitted by the Heads of the Departments to the Administrative Ministry by the middle of the same month. Apart from the expenditure actually incurred, the controlling officer has also to keep himself informed of all the commitments and liabilities incurred by his officers. The detailed account thus maintained departmentally enable the Ministries/Departments to keep expenditure within the limits of appropriation.

10. The compilation made every month by the Controlling Officer is required to be compared with the monthly account

compiled by the Accountant-General direct from the vouchers, all discrepancies fully reconciled, and the necessary corrections made. Thus, there are two sets of accounts running in parallel—one compiled by the department and the other by the Accountant-General. The two are compared and agreed from month to month. When the Appropriation Accounts are compiled by the Accountant-General after the closing of the year's accounts, the controlling officer, who has faithfully done his work, should find no difficulty in accepting them or in pointing out errors. The Appropriation Accounts, as presented to the Legislature after finalization, are accounts which have been accepted as correct by the Ministry/Head of the Department.

Difficulties of the present system.

11. However, due to dilution of staff in the Executive as well as the Accounts Offices, and the general apathy towards all matters connected with accounting, the following difficulties arise :—

(i) The bulk of the transactions originate at the Treasuries, which are under the administrative control of the Provincial Governments but render Accounts to the respective Accountants-General. The Treasury Officer is a member of the Provincial Civil Service and is not a trained Accountant. His main interest lies in the executive field and he is changed frequently on the basis of the administrative requirements of the executive side without reference to repercussions on the efficiency of the Treasury. The result is that a large number of errors are found in classification. Again, the bills are subjected to only a preliminary check at Treasuries at places other than those at which the system of pre-audit is in force. At the time of audit a large number of mistakes are discovered. These affect the accounts as compiled by the Treasuries. Also delays occur in rendering accounts by the Treasuries to the Accounts Offices. The ultimate effect is that the monthly accounts are not complete. Sometimes the vouchers in support of the transactions appearing in the treasury accounts are incomplete and missing. This causes another setback.

(ii) Timely reconciliation is seldom carried out on the due dates despite repeated requests from the Accountant-General. An important safeguard against accuracy is thus lost. Reconciliation itself, when attempted, presents a serious problem because the Drawing and Disbursing Officers who supply the figures for departmental accounts often fail to account for the book debits adjusted direct on the books of the Accountant-General. Sometime these debits relate to much earlier years and cause excesses over budget heads. This gives rise to a serious difficulty in the preparation of Appropriation Accounts.

(iii) Inter-departmental transactions adjusted through exchange accounts by the Accounts Office require a long time for acceptance of debits from the responding offices. Missing vouchers and incomplete details make it difficult to classify each item of expenditure. Such expenditure is debited to suspense head. Since sufficient attention is not paid to supplying the necessary details, huge amounts accumulate under these heads. Again, the expenditure incurred by the Embassies abroad is received late and often with incomplete details. Subsequent clearance of suspense completely alters the figures of departmental accounts.

Recommendations of the Administrative Re-organization Committee.

12. To overcome these difficulties the Administrative Reorganization Committee recommended departmentalization of accounts. This recommendation was perhaps influenced by consideration of accountability of the Heads of the Departments for all expenditure incurred. But accountability for the money placed at the disposal of an officer does not necessarily involve passing the bills himself. The committee appear to have overlooked the fact that the accounts are already departmentalized in the sense that each department keeps its own figures of expenditure as well as liabilities incurred. If the timely availability as well as accuracy of these figures is ensured it should not matter who actually passes the bills. The fact that the

reconciliation necessary for ensuring the accuracy of the figures is neglected by the department is due either to lack of adequate man power conversant with accounts work or sheer disregard of the prescribed procedure.

13. The Committee also appear to have been influenced by the fact that completely departmentalized system of accounts exists in England and several other advanced countries and that it has been tried in India both before and after Independence. But here again, they do not appear to have given sufficient weight to the fundamental differences between the conditions in England and those existing in Pakistan. In England there exists a highly centralised and well-developed system of banking so that it is possible for grants to be placed at the disposal of each department which has its own account with the Bank of England and can make disbursements from a focal point. In Pakistan the distances and the highly diffused nature of administration makes it necessary to allow various Drawing and Disbursing Officers, some of them located in far flung and out of the way places, to operate on their own authority with the result that effective control of the Principal Accounting Officer over day to day payments is impossible. Nor is it possible to provide a proper Accounts Office for each of the innumerable Drawing and Disbursing Officers. The standard of honesty and respect for rules is not such as to allow each individual office to be left entirely to its own devices. Again, the fact that there is only one source of issues of public moneys, viz., the Bank of England, makes it possible for the Comptroller-General to issue day to day authorization for withdrawals and thus exercise the necessary control over expenditure. The diffused nature of transactions in Pakistan makes this control also out of question. Thus the minimum check found necessary even in England cannot be exercised. The system successfully operating in England cannot, therefore, be transplanted to Pakistan without causing an upheaval the results of which must remain unpredictable.

14. As regards the experiments in India, the one conducted in United Provinces in 1924 was condemned by Sir Earnest Burdon in no qualified terms and abandoned as a result of his report although the Government would not admit their mistake in introducing it and; while abandoning it, sought shelter behind the financial stringency of 1930. As regards subsequent experiments, the considered opinion of Mr. Asoka Chanda, previously the Comptroller and Auditor-General of

India, is that the experiment, even in departments where it was possible to provide for pre-audit, has not contributed towards increase in efficiency but has resulted in avoidable extra expenditure and dilutions of competent manpower, and that the results are likely to be disappointing where centralised payments have never been in operation, and payments including pension, have to be made at a number of places scattered all over the country.*

15. In any case the risks and difficulties of the proposed arrangements should be evident from the very fact that India, despite her being comparatively better off in money and manpower, has not ventured to introduce it on any wide scale. For Pakistan to barge in where India, with all her advantages fears to tread, would appear to be the height of imprudence. Messrs. Price Waterhouse and Co. to whom the task of departmentalization was assigned by the Government, but who considered themselves debarred under their terms of reference from expressing any opinion about the merits or demerits of the scheme, have nevertheless advised caution in the matter. They have selected the Forest Department, a department already almost departmentalized, for experiment, and advised that this experiment should be watched carefully before proceeding further.

16. One way of implementing the recommendations of the Administrative Reorganization Committee would be to introduce the scheme tried in United Provinces in 1924. This scheme consisted in having a Pay and Accounts Officer for each of the bigger Provincial Departments such as Public Works, Education Departments, etc., while the smaller Departments were collected in several groups and each group placed under a Pay and Accounts Officer. For Central transactions in the Province, there was a separate Pay and Accounts Officer called the Central Pay and Accounts Officer. The Pay and Accounts Officer dealt with all the claims pertaining to their respective Departments and applied the same checks internally as are applied in pre-audit. The classified accounts of the departmental payments were sent to Deputy Chief Accounts Officer for consolidation. Payments were made by cheques. As pointed out before this scheme was condemned by the then Auditor-General because it did not bring about any improvement in the state of accounts and resulted in disproportionate increase in cost and diffusion of competent manpower. To try it again, specially when the nature of transactions has become much more complicated, would appear to be a waste of energy.

17. Another method of departmentalization would be to let the various departments continue to operate on treasuries

*Aspects of Audit control by Ashoka Chanda.

as at present and to have the treasuries forward the figures to the Accounts Office of the Department concerned instead of the Accountant-General. The departmental Accounts Offices could check and compile the figures for the departments and forward them to the main accounts office which could compile the figures for the Government as a whole. The Drawing and Disbursing Officers as well as other officers responsible for budgetary control would have to continue to maintain their own *pro forma* accounts. This scheme would have no advantage and would continue to present all the difficulties experienced at present. Since one step would be added to compilation, the figures would be available at a later date than at present. Post audit is bound to reveal discrepancies. Thus the figures would not be worth much. In any case the present difficulty of reconciling figures furnished by the Drawing and Disbursing Officers with those furnished by the Treasuries would remain. The only result can be that the present uniformity in interpreting rules would be lost and increased cost would be incurred.

18. A possible modification of the scheme described in the above paragraph would be to let the Drawing and Disbursing Officers draw cheques on the treasuries and render compiled accounts to the departmental accounts offices. Since it is not possible to have a proper accounts organization with each Drawing and Disbursing Officer the scheme is not only impracticable but would result in large losses to exchequer.

19. However, the existing state of affairs cannot be allowed to continue indefinitely. The unsatisfactory state of accounts is jeopardising the economic progress of the country and if some modification of the scheme in force in England, or already tried in India, is rejected as too risky or impracticable, some other solution must be found.

20. Fortunately, the adoption of the above patterns of departmentalization is not the only method of carrying out the orders of Cabinet or of achieving the objective desired by the Administrative Reorganization Committee. A simple and cheap solution is possible by which, without introducing such changes as may result in disregard of rules, the monthly figures could be made available at a much earlier date than at present. Suspense and Exchange Account could be reduced to nominal proportions while the departments could get such control over their accounts as is necessary to enable the Principal Accounting Officers to discharge their responsibility in the matter of accountability for funds placed at their disposal. This would be the adoption for civil accounts of a pattern as close as possible to that of Defence and Railway Departments,

Separation of Audit and Accounts.

21. The first step in this direction would be the separation of Audit from Accounts. This vexed question has been under consideration for a long time. Sir Fredrick Gauntlett, the then Auditor-General of India, proposed it as early as 1922. It was tried in U. P. in 1924 but abandoned as too expensive in men and money. Various authorities and committees revived the question from time to time in India but so far it has not been possible to introduce it either in India or in Pakistan.

22. The arguments in favour of separations were fully stated in the despatch of Government of India on this subject to the Secretary of State in 1925. The despatch stated that the compilation of accounts had hampered proper exercise of audit functions. Separation would help in confining the attention of an Accountant-General to audit matters and free his time and energy for a deeper audit probe. Higher audit functions were also impaired under the combined system. Amidst the existing super-abundance of bills which the Auditors had to scrutinise, the principles of higher audit, which were more important, were apt to be over-looked. Separation would enable audit to extend its scrutiny to the financial procedure of a department and its system of internal control, instead of limiting it to simple voucher audit. The combined system resulted in undue interference in the discharge of the Accountant-General's audit duties as a result of many references made to them by the Finance and other departments for advice. Audit, in theory, is a criticism of the completed work of others. The person performing it should be as detached and as independent as is possible. If, as happens in a combined office, he descends from his pedestal of independence, either by giving financial advice to the executive, by compiling or classifying accounts, by pre-auditing payments or by issuing pay authorities, his independence as a critic suffers.

23. On the other hand Mr. Chanda, formerly the Auditor-General of India, has argued that an audit independent of administration is necessary to ensure that the internal accounting organisation has not slurred over its responsibilities or has not been coerced by the administration into admitting questionable claims and over-looking irregular practices. Where the accounting organization is not under the control of the executive, as in the field of our Civil Administration at present, there is nothing inherently wrong or objectionable in the combination of the two functions. On the contrary, considerable economy in manpower and money results from this combination*.

*Aspects of Audit Control by Asoka Chanda.

24. The opinion of the Comptroller and Auditor-General of Pakistan is that not only the arguments advanced in the 1925 despatch to the Secretary of States have great force but also that separation has been in existence in accounts of the Defence Department for a very long time and was successfully introduced in the Railway Accounts in 1929 without being disproportionately expensive in men and money. The comparatively better state of accounts in these departments is directly attributable to the healthy influence of independent audit scrutiny and consequent criticism of the performance of these departments in the Public Accounts Committee. Thus the additional cost of separation has been fully justified in these departments and there is no reason why the benefits accruing to civil accounts from a similar arrangement should not justify the additional cost.

25. The main difficulty in the introduction of separation has been its high cost. Mr. Chanda has estimated that its introduction in India would cost Rs. 13 crores and require an additional 45,000 men. If his assessment is to be accepted the cost in Pakistan should be well over Rs. 2 crores. Previous Comptroller and Auditor-General of Pakistan assessed the cost to be between Rs. 28 lacs to Rs. 84 lacs on various assumptions. The present Comptroller and Auditor-General considers this to be a gross underestimate if the intentions of the Administrative Reorganization Committee are to be interpreted to mean that the pattern of British accounting system has to be reproduced in Pakistan. On the other hand the Implementation Committee have assessed the cost at Rs. 5 lacs. How they calculated costs and exactly what model of departmentalization the Implementation Committee envisaged is not clear from their comments.

26. Under the law an auditor accepts full responsibility for the accuracy of the accounts certified by him and for the genuineness and conformity to rules of all the transactions embodied in these accounts. Strictly speaking this responsibility can be discharged only as a result of a hundred per cent check of all the transactions during the period of audit. In actual practice an auditor is prepared to take a calculated risk. The first thing he does is to examine the efficiency and effectiveness of the accounting organization. If the accounting organization is really strong, independent and efficient, he takes the risk of certifying the accounts on the basis of a percentage check, the extent of which depends upon his confidence in the accounting organization. If, however, the conditions in the accounts department are not satisfactory, he must exercise a hundred per cent check. This is equally applicable to commercial as well as to Government accounts. On the Railways and in the

Defence Department, the Comptroller and Auditor-General has always been satisfied with only a percentage check. The reason is obvious. Both these departments have a strong accounts branch manned by officers who, although placed under the administrative control of the departments concerned, belong to an independent and well protected service and have no reason for either fear or favour in the proper performance of their duties. The officers and staff are well trained in accordance with rigid standards laid down in consultation with the Comptroller and Auditor-General. The traditions and procedure are well established with a built in mechanism to ensure that the defects and shortcomings come to notice automatically. Should a similar organization be established for the civil accounts department the cost should not be proportionately higher than that on the Railways or in the Defence Department.

27. There is reason to believe that the Implementation Committee intended the position to be as closely similar as possible to the arrangements in the Defence Department. However, Messrs. Price Waterhouse & Co., have interpreted it differently. They have worked out an organization in which a Forest Officer, who has never seen the inside of an Accounts Office, is to be the head of Forest Accounts Office. He is to be a member of the Forest Service and is to seek his career in other posts in that Department. Similarly his staff will have neither the training nor the protection necessary for proper discharge of the duties of internal check. Such an organization coupled with the lack of respect for rules and generally low standards of integrity in this country calls for nothing less than a hundred per cent audit. Should this pattern of departmentalization be extended to other Departments of Government the additional cost of audit cannot be less than Rs. 1.5 crores if the Comptroller and Auditor is to record his certificate with a clear conscience. Should the Government be willing to find this additional amount, it would be impossible to train the necessary number of additional officers and staff to enable the scheme to be implemented in the foreseeable future.

28. It would be recalled that when the proposal to separate audit from accounts on the Railway was first made in early twenties, the then Auditor-General of India insisted upon exercising a hundred per cent check. This made the proposal prohibitive in cost. The solution evolved was to create an independent accounts service whose officers were placed under the General Managers of the Railways in charge of an independent accounts branch, but whose administration, training and technical efficiency was the personal responsibility of the Financial Commissioner Railways, to whom all questions

pertaining to accounts could be referred direct by the Chief Accounts Officer. Continued presence of the Officers of Indian Audit and Accounts Department in most of the higher posts as well as of the bulk of the staff of the old Accountant-General Railway served to further reassure the Auditor-General about the continuity of the correct atmosphere and traditions of accounting in the newly departmentalized accounts offices. Somewhat similar arrangements can be introduced in the Civil Accounts Offices. Accounts can be separated and placed under the Central and Provincial Governments concerned. All the higher posts in the separated accounts offices, can, however, be continued on the cadre of a Central Audit and Accounts Service which can continue to be administered by the Comptroller and Auditor-General of Pakistan. The responsibility for training the officers as well as for conducting the Subordinate Accounts Service Examination can rest with the Comptroller and Auditor-General, to ensure a uniformly high standard. The posts of Accountants-General can be redesignated as that of Financial Commissioners Accounts with increased pay and status to ensure that they are able to function without fear or favour. While the Financial Commissioners Accounts could be part of the Provincial or Central Government concerned, the Comptroller and Auditor-General could report on their technical performance. All the treasuries can be placed under the Financial Commissioner Accounts. The Accounts Officers in the Department where complete departmentalization is possible can be placed administratively under the Heads of the Departments concerned but continue to be responsible for the technical side of their work to the Financial Commissioner Accounts in the same way in which a Chief Accounts Officer worked under the General Manager but was responsible to the Financial Commissioner Railways for the technical side of his work. With this type of organisation the necessity of a hundred per cent audit need not arise. A small percentage check to assure the Comptroller and Auditor-General about the continued efficiency and independent working of the accounts office should suffice.

Proposed Departmentalization of Accounts.

29. With the separation of Audit from Accounts it should be possible to place the Forest, the Public Works, the Supply, the Food, the Post and Telephone and Telegraph Departments on a full departmental basis. A scheme for departmentalization of Forest Department has been drawn up by Messrs. Price Waterhouse & Company. The main modification necessary to this scheme is that the Accounts Officer of the Department should belong to the Central Audit and Accounts

Service, and, while remaining under the administrative control of the Forest Department, should be responsible to the Financial Commissioner Accounts for the technical side of his work. The date for submission of monthly figures can also be advanced by making each Division submit its accounts direct to the Financial Commissioner Accounts simultaneously submitting figures of expenditure and receipts to the Controlling Officer. The Financial Commissioner Accounts can consolidate these accounts independently and include them in the accounts of Centre/Province and submit the entire accounts by the 10th of the following month. The departmental heads can compile parallel figures and the two sets of figures can be reconciled. Certain other modifications to take care of Exchange and Suspense Accounts would also have to be introduced. Similar schemes for the departmentalization of Public Works Department and Post and Telephone and Telegraph Departments are being prepared under the directions of the Comptroller and Auditor-General. Schemes for the departmentalization of Supplies and Food are also under preparation and can be progressed if the general principles outlined above are approved.

30. The pattern of departmentalization in the above paragraph cannot, however, be applied to other departments of Government, which due to the nature of their organization cannot conveniently make disbursement from a number of fixed centres where accounts offices can be set up and have to continue to operate on the treasuries. For them a different pattern has to be evolved to enable their Principal Accounting Officers to have such control over their figures as would enable them to discharge their responsibility for accountability to the full.

Responsibility of the Principal Accounting Officers.

31. The essence of accountability, under the system of departmentalised accounts in England, lies in:—

- (a) Exclusive responsibility of the Department concerned for incurring expenditure after the Parliament has voted a grant and the fact that the Treasury is in no way concerned after the grant has been obtained ; and
- (b) Each Principal Accounting Officer preparing his own Appropriation Accounts and being responsible for explaining it to the Public Accounts Committee.

32. In Pakistan the full responsibility for incurring expenditure under the grants voted by the Parliament has not been transferred to the Departments and the concurrence of the

Ministry of Finance has to be obtained for many items. It is for Government to consider whether the powers for controlling the expenditure should be transferred in full to the Departments concerned. But wherever this responsibility may lie the diffused nature of disbursement, would continue to make a check against sanctions by competent authority necessary at each point of disbursement and every petty drawing and disbursing officer cannot be left to his own devices. Thus an independent accounts organization for passing the bills of these departments is an inescapable necessity. As regards preparation of Appropriation Accounts there appears to be no difficulty in each department being made fully responsible for it. All that is necessary for this purpose is the availability with the department of fully reconciled up-to-date figures of expenditure. The actual passing of the bills in accordance with the rules has little or nothing to do with the responsibility for explaining how the moneys voted by the Parliament have been utilised.

Re-organization of Treasuries.

33. To provide the Principal Accounting Officers with correct and up-to-date figures so as to enable them to prepare their Appropriation Accounts a complete re-organization of the Treasuries is necessary. It is at the Treasuries that the initial check of various bills, etc., takes place and where all the mistakes originate. Sorting out of these mistakes after the vouchers have been received in the Accounts Offices is a colossal task. The re-organization of Treasuries has been under consideration for a long time. A proposal is under consideration of Government for organising a cadre of Accounts and Treasury Officers for manning the Treasuries. However, so far not much progress has been made. But even if the proposed re-organization comes about the discrepancies between the Accountant-General's figures and the Departmental figures would continue to occur and their reconciliation would continue to be difficult and the Principal Accounting Officer would not be in a position to prepare satisfactory Appropriation Accounts.

34. To overcome the difficulties discussed above, it is proposed that the treasuries be placed under the Financial Commissioners Accounts (who would be officers of Provincial Government) and converted into Pay and Accounts Offices. The functions of these Pay and Accounts Offices would be :—

- (a) the pre-audit of all claims on account of Pay, Travelling Allowance, Contingencies, etc., in respect of the gazetted officers and non-gazetted establishments employed in the district;

- (b) the maintenance of the Provident Fund Accounts of the non-transferable staff of the District ;
- (c) the disposal of pension claims, issue of pension payment orders and audit of pension payments;
- (d) the maintenance of deposit registers of the district ;
- (e) the compilation of the monthly account of payment and receipts relating to the district classified for each department ; and
- (f) the payment of various civil advances and permanent advances.

Advantages of the Proposed Re-organization.

35. The main advantages of the suggested decentralization of the Accounts Department and re-organization of treasuries would be :—

- (a) The scope of pre-audit will be widened so as to embrace all payments. As a result of the replacement of post audit by pre-audit not only would the chances of overpayments be reduced to the minimum but full particulars would have been secured on the spot, thus making correct classification possible and avoiding the use of Suspense Accounts which are operated upon only because of lack of particulars and incorrect classification ;
- (b) Pre-audited financial accounts would be compiled for each department separately. The accuracy of this compilation could be secured by weekly reconciliation with the accounts maintained by drawing and disbursing Officers at the lowest level thus avoiding the difficulties which arise when reconciliation is being attempted in the Central Offices ;
- (c) The office of the Financial Commissioner Accounts would then have nothing to do but to add up the figures of each department separately and submit them simultaneously to the Finance Department and the Principal Accounting Officers concerned ;
- (d) The maintenance of Provident Fund Accounts would become much easier owing to the comparatively smaller number of subscribers to be dealt with at each Pay and Accounts Office and

the necessary particulars being available locally ;

- (e) The disposal of pension claims and the issue of pension payment orders would be accelerated because the service record of the pensioners would be available locally ;
 - (f) The accounts staff would be better equipped for the inspection of the initial accounts of the various offices because of their knowledge of the local affairs and their association with the pre-audit of payments ;
 - (g) The refunds of deposits would be speeded up ;
 - (h) Cases of delay in payments would be reduced to the minimum resulting in corresponding decrease in the number of complaints ;
 - (i) Much of the existing correspondence between the Treasuries, Government Departments and the Accounts Departments would become unnecessary because weekly meetings would clear all doubtful points ;
 - (j) The need for operating upon such Suspense Heads as 'Objection Book Suspense' and 'Unclassified Suspense' and 'Departmental Adjusting Accounts', etc., would automatically disappear since the accounts office would obtain full particulars and verify the allocations before passing the bills and book the amount straight to the final head of account ;
 - (k) The compilation of accounts will proceed from day to day and the monthly account for the district can be ready for despatch to the Central Office on the 3rd of the following month at the latest . Allowing two days for transit the consolidation of the District Accounts by the latter can be completed by the 10th of the following month thereby advancing the date of compilation of the monthly account by 14 days ;
36. The cost of maintaining the accounts would be reduced due to the following factors:—
- (i) Reduction of the treasury staff now responsible for applying preliminary checks to claims presented for payment and for compiling the initial accounts at the treasuries.

(ii) Considerable reduction in the amount of Travelling Allowance now paid to the staff because of the local inspections constituting the responsibilities of the District Accounts Staff in the new set up.

(iii) Savings in the cost of staff and postal charges resulting from the reduction in the volume of correspondence between the Central Accounts Office the treasuries and other Government offices.

37. The Drawing and Disbursing Officers would, under this scheme, continue to compile their departmental accounts as at present. But the figures compiled by them would be reconciled with the figures of the Pay and Accounts Offices every week and at the end of each month. The Pay and Accounts offices would submit their duly reconciled figures to the Financial Commissioners Accounts by the 3rd of the following month. The latter would compile these figures and furnish them simultaneously to the Principal Accounting Officers and the Finance Department by the 10th of the following month. The Drawing and Disbursing Officers would submit the accounts compiled by them through their Controlling Officers who would do their compilation and forward them to the Principal Accounting Officers as at present. These figures should reach the Principal Accounting Officers by about the 15th of the following month. They would already have with them the reconciled and authoritative financial figures furnished by the Financial Commissioner Accounts on the 10th. The two sets of figures can be compared and discrepancies if any, removed by reconciliation. Thus, the present system of maintaining two sets of parallel figures would continue and their continuous reconciliation serve to remove all the mistakes which may have crept in the course of compilation. But the compilation and checks at present undertaken at the treasuries would have been eliminated.

38. Since the Principal Accounting Offices would have at their disposal correct and up-to-date figures of their expenditure the responsibility for preparing the Appropriation Accounts should be placed upon them thus enabling them to discharge their responsibility for accountability. This would require considerable strengthening of their accounting organization which must include properly qualified accounts staff and officers whose duties should include reconciliation of departmental accounts figures with the figures furnished by the Financial Commissioner Accounts, preparation of monthly financial review and compilation of Appropriation Accounts.

39. The success of the entire scheme would depend upon weekly reconciliation of figures compiled by the Drawing and Disbursing Officers with the figures of the Pay and Accounts Offices. The present lack of respect for everything connected with audit and accounts does not inspire much confidence that this would receive as much attention as it requires. A part of the scheme would to re-enforce rigid discipline and consequent penalty for any delay in reconciliation.

Suspense and Exchange Accounts.

40. The biggest sources of confusion in Government accounting are the Suspense Accounts and the Exchange Accounts. Most of the former arise from the fact that the correct allocation of many items of expenditure is unknown at the time of passing the bills. While the number of transactions was limited and a body of well trained and efficient staff was available these arrangements worked well enough. But with the increase in the multiplicity of transactions and dilution of staff, both in the executive and accounts offices this complicated procedure involves great delay in clearance and vitiates the accounts completely. The Controlling Officers rightly complain that even when they get their figures reconciled they do not know what expenditure they are incurring and old adjustment made by the Accountant-General or his failure to debit the amount to the year to which it pertains, completely vitiates their figures and result in large excesses or savings for which they cannot be held responsible. If the treasury reforms proposed above are accepted the need for operating on most of the Suspense Accounts would automatically disappear. As regards Book adjustments a simple method of finalising the transactions in cash was suggested as early as 1956. This proposal placed the responsibility for finalising these transactions in cash squarely upon the officer initiating the transaction. It was accepted in principle by Government but not implemented due to reasons which do not appear to be clear. However, the proposals made in 1956 did not take care of payments made abroad. With the increase in the magnitude of such payments the necessity of simplifying the procedure for adjustment of payments made abroad is obvious. The proposals made in 1956 have therefore been revised. The revised proposals are attached as Annexure to this Memorandum and if accepted would reduce the 'Suspense Accounts' to nominal proportions and result in minimising the book adjustments, thus making correct figures available for the Principal Accounting Officers.

Morale in the Audit and Accounts Department.

41. While the procedural changes discussed above will help in improving matters it needs to be emphasised that the basic cause for the breakdown of the existing system is the low state of morale in the Department. No system, howsoever perfect, can be expected to function satisfactorily if the personnel responsible for working it are dissatisfied, discontented and looking over their shoulders to see whether there is any prospect of their being able to get out to another job. That, this is the state of affairs from top to bottom in the Audit and Accounts Department needs to be appreciated if the state of accounts and the financial administration in the country is to be improved.

42. The subordinates in the Audit Department have long been dissatisfied with their pay and conditions of service. There have been repeated protests, strikes and demonstrations. But a satisfactory solution of the problem has not been forthcoming. Their point of view needs to be appreciated. Their work requires not only a high degree of intelligence and knowledge but they have also acquired a technical know how for which there is a ready market and a growing demand in a developing economy ; and yet they find that less qualified persons with little or no market value doing the work which needs neither more knowledge nor greater ability drawing much more pay and enjoying a much higher status merely because they happened to be recruited in the Secretariat. Nor are the rates of pay and conditions of service in the department such as to attract the proper type of men. At the moment there are no less than 600 vacancies which remain unfilled despite every effort. The number of resignations is stupendous. Even if the resignations are not accepted the employees are prepared to abscond. At present approximately 170 Warrants under the Essential Services Ordinance are pending against the absconding employees and a very large number of men are staying on merely because they are afraid of prosecution. Obviously no work can be expected from employees working under these conditions.

43. A more or less similar state of mind exists in the Gazetted cadre. All the officers in the department are looking forward to making their career by getting out of the department and those who once get out do not care to come back using all possible methods for continuing on deputation because there are no prospects in the department. The creation of the "Pool" has aggravated the evil. Under this scheme the best officers are permanently lost to the department and the profession of accountancy is considered suitable only for mediocres or unfor-

fortunates who are not selected for the 'Pool'. While the Pakistan Civil Service loses nothing under the scheme because the prospects of those who do not enter the 'Pool' are no worse than of those who are in the 'Pool', for the Pakistan Audit and Accounts Service it has meant complete destruction of morale, because, those who are not selected for the 'Pool' have little or nothing to aspire to and thus lose the will to work and excel in their performance. Again, while the best officers are being continuously withdrawn the Department is to be used as a training ground for those who have neither any interest in accounting as such nor any stake in it. This double blow means a complete ruin of efficiency. It was no doubt for these reasons that the Auditor-General of India refused to spare his officers for the 'Pool' and consequently it was abolished in that country sometime after partition.

44. The philosophy underlying the creation of the 'Pool' was to bring into existence a service of specialists for manning the posts in the Ministries responsible for the economic development. But the activities of the Ministries concerned are so varied and in certain cases of such a specialized nature that the decision really amounted to creation of another 'Generalist' Service under a new name. In actual practice, according to the best information available, the arrangement has not worked as intended. Thus, while some C. S. P. Officers have been found acceptable to the Ministry of Finance no one belonging to account services has so far been posted to the Ministries of Commerce or Industries. Nor has any 'Pool' officer been posted to the Audit and Accounts Department. In India two officers of the 'Pool' were assigned to the Accounts Department. Both of them failed to complete their training and never took actual charge of the office. In Pakistan one officer has just been nominated for the accounts department. It remains to be seen whether at his age he is going to succeed in acquiring that specialized knowledge which is essential for the head of an Accounts Office. The Pay and Services Commission have strongly criticized the posting of 'Pool' officers to the Income Tax and Customs Departments and have high lighted the consequences of such postings. Presumably it is in view of these difficulties that a senior officer selected from the Customs Department has been appointed as the head of that department in disregard of the principle applicable to the posting of 'Pool' officers who are not supposed to be sent to their parent departments and that a non 'Pool' officer has been appointed as the head of the Income Tax Department. It is understood that in every department exceptions are being made because of special requirements of different posts. The scheme thus appears to have failed in practice.

45. The system under which officers went to the Secretariat on the principle of holding tenure posts had the advantage of securing the policy making organization fresh knowledge of the technical department concerned and of keeping the departments fully informed of the requirements for policy making and the reasons for broad policy decisions of Government. Under that system a harmonious liason was secured between the field offices and the policy making organizations. Under the 'Pool' system not only the technical knowledge of the officers selected gets rusted and out of date but the departments remain completely in the dark about the difficulties of Government and the how and why of various decisions.

46. As mentioned before, the 'Pool' has been fully tried out in India and has been finally abolished. It appears high time to consider its abolition in Pakistan also not only in the interest of efficiency of the Audit and Accounts Department but also to ensure smooth administration and increased efficiency in the Secretariat itself. It is pointed out that the Pay and Services Commission have, after careful consideration of the matter, recommended the abolition of the existing 'Pool'.

47. It is awkward to discuss the post of Comptroller and Auditor-General in this Memorandum but his position has such vital significance for the financial administration in the country that a reference appears unavoidable. In almost every country in the world this is the most coveted post. Before partition the Auditor-General of India enjoyed a pay and status and commanded a respect which was second to none in the country. In post-partition India while presenting the Constitution Bill to the Indian Constituent Assembly, the then Law Minister described it as the most important post next to that of the President. In Pakistan, despite the fact that in every case the pre-partition status and emoluments of various posts were retained, the post of the Comptroller and Auditor-General was singled out for reduction in Pay and Status. The country has paid a disproportionately heavy price for this invidious discrimination. With the position of the Auditor-General has gone all the respect for financial regulations. Subsequent chaos in the field of accounting and financial administration is directly traceable to this action. Now the post goes abegging. No one who can secure another post for Rs. 4,000 is prepared to look at it. One would much rather be a Secretary to a Department or Chairman of one of the numerous Corporations with patronage and power and amenities like free house and free transport attached to the post than become the Comptroller and Auditor-General of Pakistan. Unless the position and conditions of service of the Auditor-General are such as to make the post as coveted and as

respected as it is in other countries and the emoluments and prospects of the officers and staff are so changed as not only to attract good men but also to keep them happy, any hope of improving the accounts or of having the financial regulations respected is doomed to disappointment. The Pay and Services Commission appear to have realized this fully. If their recommendations are accepted the necessary improvement can be expected. If not, other measures must be devised for rectifying the situation.

Proposals for Enforcing Respect for Financial Administration.

48. The most disturbing feature today is the complete disregard, amounting to contempt, for financial regulations and observance of rules. At present as many as 872 cases of unfinalised irregularities involving Rs. 11.07 crores are outstanding. Of these as many as 103 are more than ten years old and remain unattended despite repeated reminders extending over years. Besides the number of unfinalised Public Works Inspection Reports issued upto the end of 1959-60 is 1,800 and of O. A. D. Inspection Reports 2,977. The declared objective of Government is to root out inefficiency, corruption and dishonesty and great efforts are being directed towards this end. But it is not realized that proper attention to audit objections, however, futile they may appear at first sight, is the surest way of probing into these aspects of the work of Government servants. How much negligence, waste, corruption, graft and dishonesty lies hidden behind the mass of audit queries, which remain unattended, will never be known. With a view to enforcing more respect for financial proprieties and making good the losses to the public exchequer within a reasonable time it was proposed that the Comptroller and Auditor-General should be given the powers of surcharge with a view to recovering proved losses to Government on the lines of the powers enjoyed by the Comptroller and Auditor-General in U. S. A. and in several Commonwealth countries. While the Central Government and the Government of East Pakistan accepted the the proposal, the Government of West Pakistan objected to it on the ground that such an arrangement would result in the officers losing their initiative and shifting the responsibility to their superior officers. It was suggested that a Committee of Secretaries should be constituted to dispose off audit objections. The question was considered by the Administrative Reorganisation Committee who recommended that a Presidential Order should be issued that—

- (i) The Ministries/Departments should pay adequate and prompt attention to the irregularities brought to their notice by the Pakistan Audit Department, and
- (ii) In cases where audit objections remain outstanding for more than six months the matter should be brought to the notice of the Minister concerned and the Minister for Finance by the Comptroller and Auditor-General. The Comptroller and Auditor General pointed out that such a Presidential Order would not be effective unless it contained a penalty clause. Government, however, decided that this was not necessary. Ultimately not even this Order was issued and Government decided to issue only executive instructions for expeditious finalisation of audit objections. The reasons for continuous toning down of the original proposal, to the extent that they have become almost meaningless, are not clear. There can be no hope of curing this vicious and deep seated disease by instructions as mild and apologetic as the one issued. Initiative and willingness to accept responsibility are important for development and progress. But it can never be in the interest of the country to allow them to become a cloak for disregard of rules causing losses to public exchequer and even acts of dishonesty. If the power to levy surcharge has been found acceptable in other countries, where initiative and willingness to accept responsibility are equally, if not more prized, there does not appear to be sufficient reason for not introducing it in a country where the standards of public morality are substantially lower. In any case if audit is to serve the purpose it is intended for means must be devised forming it effective. It must be appreciated that the officers to whom executive instructions mentioned above are proposed be issued have failed to develop proper respect for financial regulations and are inclined to protect their subordinates for some of whose acts of commission and omission they may themselves be

partly responsible. The only remedy would appear to be to revert to the original proposal. Alternatively, to instil confidence in the officers that the power to levy surcharge would not be used in an arbitrary manner by the Comptroller and Auditor-General, a Court of Accounts, on the line of Courde Comptes in France, and other countries where Code Napoleon is in force, may be constituted and may consist of the Comptroller and Auditor-General and a High Court Judge and a high ranking executive officer.

Summary of Proposals.

49. Briefly the following changes are necessary for proper reorganisation of accounts :—

- (i) Audit and Accounts should be separated. Maintenance of accounts should become the responsibility of the Central and Provincial Governments in their respective spheres.
- (ii) The posts of Accountants-General should be abolished and replaced by that of Financial Commissioners (Accounts) in the Provincial and Central Governments. The Financial Commissioner (Accounts) should be directly responsible to the Finance Minister.
- (iii) Such departments as can arrange to make payment from a given number of focal points, for example the Forest Department, Public Works Department and the Supply and Food Departments etc. should be completely departmentalised. The position of the Accounts Officers of these Departments should be similar to that of the Chief Accounts Officers on the Railways. They should be under the administrative control of the department concerned, but should belong to the cadre of a Central Service and be under the technical control of Financial Commissioner (Accounts) who would be the judge of their technical competence. They should be free to obtain instructions from him and to refer any doubtful point to him direct.

(iv) To cater for other Departments, which due to the diffused nature of their activities cannot make payments through an Accounts Office of their own, treasuries should be re-organised and converted into pay and Accounts officer under the control of Financial Commissioner (Accounts). Compilation of purely financial accounts from the reconciled figures furnished by the Pay and Accounts Offices should be done by the Financial Commissioner (Accounts) while the Principal Accounting Officers are made responsible for compiling the Appropriation Accounts and maintain their own accounts for this purpose. The figures compiled by the Departments can be compared weekly with the figures of the Pay and Accounts Officers. This arrangement will ensure pre-audit of all transactions and obviate the mistake of classification etc., which arise at present.

(v) Each Foreign Mission including the High Commissioner in the United Kingdom should be re-organised on the same lines as other Pay and Accounts Offices and should render classified accounts to the Financial Commissioner (Accounts) to enable him to include the same in the accounts for the month to which they pertain.

(vi) Instead of the present Inter-departmental Governmental adjustments through the media of Exchange/Settlement Accounts all inter-departmental/Governmental transactions should be settled in cash by the departments through a special cheque payable only to Governments Account thus reducing Exchange and Settlement Accounts to the absolute minimum.

(vii) The use of Suspense Accounts should be reduced to the minimum. Need for placing a large number of items under Suspense would disappear with the recommended reorganisation of treasuries.

(viii) All Class I posts should be on the cadre of a Central Audit and Accounts Service administered by the Comptroller and Auditor-General

as at present. The Comptroller and Auditor-General should also report on the technical competence of Financial Commissioner (Accounts).

- (ix) Departmental examinations for officers as well as subordinates should continue to be conducted by the Comptroller and Auditor-General to ensure uniformity and adequacy of standards.
- (x) Financial Commissioner (Accounts) should be able to refer to the Comptroller and Auditor-General any doubts about the legality or admissibility of a claim. Necessary provisions can be made enabling the Auditor-General to give his ruling in advance on the lines of the provisions under the U. S. A. Laws.
- (xi) To ensure proper respect for audit and avoid loss to exchequer the Comptroller and Auditor-General should be entrusted with the powers for levying a surcharge against the officer responsible for any loss to public exchequer. Alternatively a Court of Accounts consisting of the Comptroller and Auditor-General, High Court Judges and a senior officer of administration may be entrusted with these powers.
- (xii) The Principal Accounting Officer should be made responsible for preparing their own Appropriation Accounts from the reconciled figures at their disposal. The Accounts prepared by them can be consolidated by the Financial Commissioner (Accounts).
- (xiii) Immediate steps should be taken to restore the morale in the Department either by implementing the recommendations of the Pay and Services Commission or otherwise.

ANNEXURE

ELIMINATION OF PUBLIC WORKS

1. Transference of Public Works

Proposals for elimination of work adjustments were made by the Public Works and Engineering Department in 1958. The proposals were as follows:

(i) Transference of the construction of all public works to the Public Works Department in the Ministry of the Interior.

(ii) Services rendered by the Public Works Department in the Ministry of the Interior.

(iii) Services rendered to a Public Works Department in the Ministry of the Interior.

(iv) Services rendered by the Public Works Department in the Ministry of the Interior.

(v) Services rendered by the Public Works Department in the Ministry of the Interior.

(vi) Services rendered by the Public Works Department in the Ministry of the Interior.

ANNEXURE

ANNEXURE

ELIMINATION OF BOOK ADJUSTMENTS

1. *Transactions arising in Pakistan.*

Proposals for elimination of book adjustments were made in Comptroller and Auditor General's U. O. No. 1400-AC-I-A/83-56, dated 13th December, 1956. They embraced the following types of transactions :—

- (i) Payments made in the jurisdiction of one Audit Officer on behalf of another Audit Officer in respect of the transactions of the same Government.
- (ii) Services rendered by one Public Works Division to another Public Works Division of the same Government.
- (iii) Services rendered to a Public Works Division by a Civil Department of the same Government and *vice versa*.
- (iv) Services rendered by one Civil Department to another Civil Department of the same Government.
- (v) Services rendered by a Department of the Central Government to a Provincial Government Department or *vice versa*.

The present system of accounting for the above transactions is described below :—

2. *Payments made in the jurisdiction of one Audit Officer on behalf of another Audit Officer.*

At present such payments are made on the specific authority of the audit office concerned, either issued from time to time, or as a standing arrangement. The vouchers in respect of such payments are passed on through the medium of Remittance Heads technically known as "Exchange Accounts" for ultimate adjustment in his books. It was proposed some time ago that the transfer of vouchers should be avoided by decentralising the audit of such departments and declaring the Accountants-General/Comptrollers concerned as audit officers to enable them to account for these payments finally in their books. This suggestion has been accepted by the Government and Audit of 70 offices which formerly rested with the Accountant-General, Pakistan Revenues has been transferred to the respective Area Accounts Offices. Thus the bulk of the Exchange Accounts has been reduced considerably. However, if the work now done by the Accountant-General is decentralised and Pay and Accounts Offices proposed in the Memorandum are organised, the transactions arising in the jurisdiction of each Treasury would finally be booked to the appropriate head by the Pay and Accounts Offices concerned and the need for operating on Exchange Accounts would disappear. In cases where payments have to be paid outside the jurisdiction of a Pay and Accounts Office, it would be made in Cash *i. e.* by Cheques.

3. (i) *Services rendered by one Public Works Division to another Public Works Division.*

Under the existing system the transactions of a supply of say 10 bags of cement, costing Rs. 50 by Executive Engineer A to Executive Engineer B is adjusted as follows:—

- (a) Executive Engineer 'A' credits Rs. 50 to stock or to the Accounts of the work from which the cement has been issued and raises a debit against Executive Engineer 'B'. The debit transaction is classified under the head "Public Works Remittances-Transfer between Public Works Officers" in the accounts to be submitted to the Accountant-General. At the same time

Executive Engineer 'A' issues an Advice of Transfer Debit, supported by the acknowledgement of the receiving officer to the Executive Engineer 'B'.

(b) On receipt of this advice the Executive Engineer 'B' adjusts the debit under his own service head and at the same time credits the head 'Public Works Remittances-Transfers between Public Works Officers' giving acceptance of Transfer Debit to Executive Engineer 'A' who forwards it to the Accountant-General in support of the debit entry in his monthly accounts.

(c) The debit in the accounts of Executive Engineer 'A' under Public Works Remittances—Transfer Between Officers and the credit in the accounts of Executive Engineer 'B' under the same head are paired in the Audit Office so as to cancel each other. At present a very large number of such items are outstanding in the books of the various Audit Offices either because the debits are not responded in the same year or because sufficient particulars are not given in the accounts rendered by the responding officer to enable the Audit Office to link the transactions.

(ii) *Service rendered to a Public Works Division by a Civil Department of the same Government and vice versa*

Under the present system if an Executive Engineer buys, for example Rs. 20 worth of articles from a jail, the transaction passes through the following channels :—

The Jail sends a bill to the Executive Engineer concerned giving description of the articles supplied and the cost. The Executive Engineer accepts the bill and sends it to the jail after recording the classification. The jail sends the accepted bill to the Audit Office, where the sum total of all these bills are credited to the receipt head of the jails department, while debits are raised against the various Civil and Public Works Departments. In case of transactions adjustable on Public Works—books the amount of such bills is initially debited by the Civil Accountants-General to the Director of Audit and Accounts Works through the 'Works Audit Suspense'. The latter has to clear this head by debit to the head 'Public Works Remittances' and an adjustment Memo, duly supported by vouchers is issued to the Division concerned. On receipt of the adjustment Memo, the Division debits the Budget head concerned in its own books by credit to the head 'Public Works Remittances' to clear the debit by the Director of Audit and Accounts Works. The Director of Audit and Accounts Works office watches whether the responding credit appears in the Divisional Accounts and links it with the debit.

(iii) *Services rendered by one Civil Department to another Civil Department of the same Government.*

In this case the supplying department sends the accepted bills to the Audit Office where the amount of the bills is credited as receipt of the supplying department by debit to the respective accounts heads of the various receiving departments. The adjustment is usually delayed by two or three months after the actual occurrence of the transaction either because complete classification of the charge is not given or full particulars of the supplying or receiving office are not furnished in the bills sent to the Accountant-General.

(iv) *Service rendered by a Central Government Department to a Provincial Government or vice versa.*

By far the largest number of transactions under the above category which figure in the Exchange Accounts relate to (i) debits, on account of credit notes issued by the various Departments to the Railway Department in lieu of the fare and freight charges payable to the latter and (ii) the telephone call bills.

The following are some of the main Departments which issue credit notes at present :—

- (1) Public Works.
- (2) Defence.
- (3) Police.
- (4) Jails, etc., etc.

Credit notes issued to the Station Master are incorporated by him in his departmental accounts as receipts and then forwarded to the Financial Adviser and Chief Accounts Officer concerned for monetary adjustment against the relevant funds through the Bank. In respect of such payments which are ultimately adjustable in the Public Works books the procedure followed is that the amount of the credit notes received in support of the clearance Memo. from the Bank is debited under the head "Public Works Remittances." The Office of the Director Audit and Accounts Works at the same time issues an adjustment Memo. to the Public Works Department Officer for adjustment in his account by credit to his budget head and credit to the head Public Works Remittances through the monthly account. The transaction is ultimately cleared when credit appears in the monthly account of Public Works Officer.

In the case of similar adjustments in the books of the Civil Departments like Jails and Police the credit notes are not sent by the Accountant-General to the Department but are adjusted straight away by debit to the budget heads concerned on the basis of the classification recorded on the credit notes and of the particulars of the department issuing the same. An exactly similar procedure is followed in respect of telephone bills.

4. *Proposed Procedure*

The procedure in respect of the transactions described in paragraph 3 above could be simplified by the issue of special cheque books to all the drawing and disbursing officers who are not in possession of cheque books at present unlike Forest and Public Works Department. The cheques should be superscribed 'Payable by transfer credit to Government account only'. All the transactions discussed above could be settled by the issue of cheques by one authority to another. The Public Works and Forest Department would incorporate such payments in the monthly accounts rendered by them. The authorities other than Public Works and Forest Officers making the payment would submit to the Pay and Accounts Officer concerned a monthly statement of cheques issued indicating clearly the object for which the payment has been made and the head of account to which the amount is debitable. The pay and Accounts Officers would adjust the transaction under the relevant head. Similarly the officer receiving the payment would deposit it with his Pay and Accounts Office indicating the head of account to which it is to be credited. Such a procedure would place the responsibility for all the adjustments finally upon the officers concerned and would result in expeditious settlement of transactions.

5. In case the above proposals are implemented, only the following types of transactions which are purely of book keeping nature would appear in the Exchange Accounts :—

- (i) Remittances of money into and cheques drawn by officers of the Central Government (Civil) on treasuries and remittance into and cheques drawn on civil treasuries by officers of the Defence and Posts and Telegraphs Department.
- (ii) Transactions under the head "Adjusting Account between Central and Provincial Government" which are ultimately passed on to the Accountant-General, Pakistan Revenues for adjustment after monetary settlement through the Bank.

II. ADJUSTMENT OF EXPENDITURE ABROAD

1. (i) *Transactions in the United Kingdom.*

These transactions may be divided into following broad categories :—

(a) Transactions for which the Director Audit and Accounts London renders compiled and classified accounts.

These are items of expenditure on account of Central as well Provincial Governments including Debt and Deposit head transactions for which budget provision is made under London Circle.

(b) Transactions for which separate provision for expenditure in the United Kingdom is not made in budget and which are finally brought to account in Pakistan.

(ii) So far the compiled and classified accounts sent by the Director of Audit and Accounts, London, are concerned, the adjustment in accounts of the Provincial or Central Government does not present any problem as the amounts are straight away added in the books under the relevant major heads.

(iii) As for the items adjustable in Pakistan their adjustment is made after obtaining further details, and classification either from the Audit sections in the Accounts Office itself or by reference to the departments. Final adjustments of these transactions involve considerable delays because the necessary particulars are not always available.

(iv) All transactions of the Central and Provincial Government on behalf of third parties (e.g., local Funds, Statutory Corporation, etc.) taking place in the United Kingdom are included in the Remittance Accounts between England and Pakistan. Transactions of the Central and Provincial Government passed on to Pakistan are eventually incorporated by the Accounts Offices in the accounts kept in Pakistan under appropriate heads of account.

(v) The transactions passed on to Pakistan are exhibited in the Account Current under the following heads :—

Revenue and Capital transactions of the Central Sub-divided under—

Civil,

Posts and Telegraphs.

Defence Services.

Net Disbursement on behalf of Railways.

Net Disbursement on behalf of Provincial Governments.

Remittances Miscellaneous Accounts between England and Pakistan.

The details of revenue and capital transactions of the Central Government under appropriate heads of accounts are given in subsidiary monthly statements of receipts and disbursements, working up to the totals in the Accounts current. These statements are sent by the Director, Audit and Accounts, London, direct to the Accounts Officers concerned in Pakistan *viz.* Accountant-General, Pakistan Revenues, Defence and Posts and Telegraphs, etc. Similarly statements of receipts and disbursements relating to each Province classified under prescribed heads of account and working up to the net amounts shown in the Accounts current is transmitted monthly to the Provincial Accountant-General direct. The transactions accounted for under 'Net Disbursements on behalf of Provincial Governments' include not only transactions under Revenue and Capital heads, but also those relating to Debt and Deposit heads.

Statements in the case of Railways are sent to the Railway Accounts Officers concerned.

The Remittances Miscellaneous Account between England and Pakistan supported by schedules are sent to the Accountant-General, Pakistan Revenues the Defence Accounts Officer and the Posts and Telegraphs Account Officer concerned.

2. *Transactions in countries other than the United Kingdom.*

In countries other than the United Kingdom the payments are made by our foreign missions on account of :—

Stores,

Scholarships.

Leave Salaries and Deputation Pay, etc.

The debits on account of the above payments are received by the Accountant-General, Pakistan Revenues in the accounts of the missions rendered to him. The transactions relating to the accounts of the Central Government are passed on to the concerned Accounts Officers through the Exchange Accounts for adjustment in their books.

The transactions relating to Provincial Governments are classified by the Accountant-General, Pakistan Revenues in his accounts under the head 'Adjusting Account between Central and Provincial Governments'. Money settlement for the amount booked under this head is made against the balances of the Provincial Government concerned by issue of advice to the Central Account Section of the State Bank at Karachi. At the same time an account duly supported by Schedules and Vouchers is sent to the concerned Accounts Officers for adjustment in their books. The adjustment of all these transactions is much delayed due to timely non-availability of necessary particulars.

3. *Money settlement with Provincial Governments and Railways.*

The net disbursement made by the High Commissioner for Pakistan on behalf of each Provincial Governments is intimated by the Director, Audit and Accounts, London to the Accountant-General, Pakistan Revenues. On receipt of this intimation the Accountant-General, Pakistan Revenues arranges with the Central Section of the State Bank of Pakistan to have the necessary monetary adjustments made against the balances of the Provincial Government concerned by credit to the account of the Central Government. In the same manner the Accountant-General, Pakistan Revenues, carries out money adjustments against the balances of the Railway Board.

4. *Revised Procedure.*

(i) The time lag involved in the procedure described above could be avoided if the embassies were to prepare classified account separately for the Central Government, the Provincial Governments and for other organisations, e. g. Railways, Defence and Posts and Telegraphs which

have their own separate Accounts Officers. These accounts duly supported by vouchers could be sent direct to the Accounts Officer concerned who would check the vouchers and bring them into his own account, under final heads per contra debit/credit under the head "State Bank Suspense". A copy of each of these accounts would be sent to Accountant-General, Pakistan Revenues in support of the Embassy's Remittance Account. The Accountant-General, Pakistan Revenues could pass these Remittance Accounts and make financial adjustments with the accounts officers concerned. This procedure will have the advantage that the final heads of accounts will receive cognizance and then the linking of the debits/credits received from the Accountant-General, Pakistan Revenues with the credit/debits generated under the suspense head will be a book-keeping adjustment which will not affect the budgetary heads.

(ii) In order that the above procedure may work satisfactorily and more promptly, the Embassies may send the account in two batches, one relating to the payments made from 1st up to the 10th and the second from the 10th to the last date of the month. The sum total of these two batches relating to each Accounts Office will be shown in the monthly account sent by embassy to the Accountant-General, Pakistan Revenues.

(iii) As the monthly accounts would require to be prepared as early as possible and the present date of completion of accounts is proposed to be advanced, the embassy may work to an adjustment month from 25th of each month to the 24th of the next month, i.e., the Accounts for July will be from 1st to 25th, and Accounts for June every year will be from 26th of May up to the 30th of June and in the remaining months from 25th to 24th.

5. The above procedure envisages an important change in the organisation of the Embassies which has so far been resisted by the Foreign Office for reasons which are not clear. To enable each embassy to prepare a proper classified account it should have an accounts office responsible to the Central Financial Commissioner (Accounts) attached to it. The immediate administrative control of these offices can be with embassies concerned but the officer-in-charge should have the right to approach the Financial Commissioner, Accounts in all cases where he considers it to be necessary. His position would then be similar to that of Chief Accounts Officers on the Railways who are under the administrative control of the General Manager or a Divisional Accountant in the Public Works Department. The size of the organisation must depend upon the volume of transactions in each Embassy but is not expected to be larger than at present. To avoid the difficulties experienced by the Embassies the Heads of the Missions should have full powers to order any payment he considers necessary. But if the Account Office considers such payment to be irregular it should be entered in the objections register and reported to Audit.

6. The existing office of the Director, Audit and Accounts, London, would also have to be re-organised on the above pattern. The head, 'Charges in England' would then be abolished and all the transactions incorporated in Pakistan.

7. It may not be possible for the embassies to classify all the items under final heads of accounts. Such items would be classified by them in their account under the head "Unallocated items." The Account Officers in Pakistan receiving the Account will adjust these items under proper heads after obtaining detailed classification.