

CHAPTER-IX

STATUTORY AUDIT

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Ministry of Railways (Railway Board)

CHAPTER IX

STATUTORY AUDIT

901 Comptroller and Auditor General of India.- Comptroller and Auditor General of India is an authority *sui generis* created by the Constitution of India for conducting audit of the accounts of the Union, the States and the Union Territories. His functions are derived in the main from Articles 149 to 151 of the Constitution and these have been further defined by the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act-1971 which came into force from 15th December, 1971 and the amendment Act, 1976 which came into force from 1st March, 1976, This enactment lays down in detail his duties, powers and conditions of service. According to these Acts his duties are-

(a) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain, whether 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 and whether the expenditure conforms to the authority which governs it;

(b) to audit all transactions of the union and of the States relating to Contingency Funds and Public Accounts

(c) to audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any Department of the Union or of a State and in each case to report on the expenditure, transactions or accounts so audited by him.

902 It is also the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose, such examination of the accounts as he thinks fit and report thereon.

903 He also has authority to audit and report on the accounts of stores and stock kept in any department of the Union or of a State.

904 He has, in connection with the performance of his duties, authority-

(a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for keeping of Initial or subsidiary accounts, as submit accounts to him

(b) to require that any accounts, books papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection ;

(c) to put such questions or make such observations as he may consider necessary to the person in charge of the office and to call for such information as he may require for preparation of any account or report which it is his duty to prepare.

905 The Act of 1971 read with amendment Act, 1976 also contains provisions about audit by Comptroller and Auditor General of authorities and bodies substantially financed from the revenues of the Union or States or the Union Territories. It also specifies his functions in the case of grants or loans to outside authorities or bodies. It also provides for entrustment to him of audit of accounts of authorities or bodies by the President, the 'Governor of a State or the Administrator of a Union Territory subject to certain conditions. His duties and powers in relation to audit of the accounts of Government companies are defined in the Companies Act 1956. He conducts audit of the accounts of Corporations established by or under law made by Parliament in accordance with the provisions of the respective enactments.

906 Under Article 150 of the Constitution, the accounts of Union and State Governments shall be kept in such forms as the Comptroller and Auditor General of India may, with the approval of the President, prescribe. Article 279 of the Constitution provides that the Comptroller and Auditor General of India shall ascertain and certify the "net proceeds" of any tax or duty collected by the Government of India but which are assigned partly or in full to the States in terms of Part XII of the Constitution of India. (Taxes on Passenger fares collected by the Railways, for instance).

907 His oath of office requires him to uphold the Constitution and the laws and to discharge his duties without fear or favour, affection or ill-will. The Constitution safeguards the independence and freedom of the Comptroller and Auditor General in a variety of ways. Article 148 of the Constitution provides that the Comptroller and Auditor General shall be appointed by the President under his hand seal and shall only be removed from office in like manner and on the like ground as a Judge of the Supreme Court. It also provides that he would not be eligible for any other office either under the Government of India or the Government of any State and that the administrative expenses of his office, including all salaries, allowances and pensions payable to or in respect of persons serving in that office, shall be charged, upon the Consolidated Fund of India.

908 The scope and extent of audit are determined by the Comptroller and Auditor General at his discretion.

909 Railway Accounts- Separation from Audit.-- As stated in [para 104](#), the process of separation of accounting and auditing functions on the Railways was completed in 1929 as a sequel to one of the recommendations of the Acworth Committee. Under this arrangement, the Comptroller and Auditor-General has been relieved of the responsibility for compiling the accounts of Railway department. His responsibility for statutory audit of the accounts of Indian Railways is the same as that for the other departments of the Government of India.

910 Director of Railway Audit.-The responsibility of the Comptroller and Auditor General for audit of Railway accounts is discharged through the Additional Deputy Comptroller and Auditor-General of India (Railways) and ex-officio Director of Railway Audit, who

conducts the audit on behalf of and under the direction of Comptroller and Auditor General. He is assisted by Chief Auditors posted at head-quarters on each of the zonal Railways and a Chief Auditor for the Railway Production Units.

911 One important object of statutory audit for the Railways is to ensure that the system of accounts adopted and used in the Accounts Department of the Railways is suitable and that the check by the internal check mechanism is sufficient, that the accounts are maintained and the checks applied with accuracy and that arrangements exist in the Railways Accounts offices to ensure attention to the financial interests of Railways. This object is secured by a test check applied to the vouchers and connected accounts records of the Accounts Department and by inspections on the spot of initial records and documents in the offices in which the transactions originate. The Railway officers should afford all facilities to statutory Audit officers in the discharge of their duties.

912 The Additional Deputy Comptroller and Auditor-General of India (Railways), and ex-officio Director of Railway Audit, is responsible for scrutinising the adequacy and suitability of all instructions governing compilation of the accounts of Railways and the internal check procedures, whether those instructions be in the form of Codes or otherwise. He is to satisfy himself that such instructions are consistent with the relevant statutory rules and facilitate conduct of an effective audit thereof. He is also responsible for scrutinising the Railway portion of the Finance Accounts of the Union Government including Annual Review of Balances Compiled by the Railway Board (Accounts). He also examines the Appropriation Accounts prepared by the Railway Board for certifying their accuracy and prepares the Audit Report (Union Government-Railways) of the Comptroller and Auditor – General of India.

913 The Additional Deputy Comptroller and Auditor-General (Railways), and ex-officio Director of Railway Audit, is responsible for audit of-

(i) sanctions, having financial effect, accorded by Government of India other than those pertaining solely to an individual railway or railway accounts office

(ii) sanctions regarding financial rules and general orders issued by the President which are not of a general nature but are applicable exclusively to the Railway Department ;

(iii) tenders invited and accepted by the Railway Board for purchase of materials; and

(iv) accounts maintained in the office of the Railway Board (Accounts Branch).

914 The Chief Auditor of a Railway is responsible for detailed audit of the accounts of that Railway and for conducting inspections of the records of the various offices of that Railway. This responsibility extends to all expenditure and receipts of that Railway whether under construction or open to traffic and to the account of stores, stock and manufacture. He audits interalia (1) the financial sanctions, pertaining to his Railway and offices under his audit, accorded by the various Railway authorities, (2) allocation of estimates sanctioned by those authorities, (3) general orders issued by the General Manager, (4) all sanctions pertaining to local

traffic, (5) sanctions issued by the Railway Administration relating to interchange traffic between two railways.

915 The cost of Railway audit is borne by the Railway revenues and is debited to the minor head 'Statutory Audit including Pensionary charges etc.' under the Major heads "345-Indian Railways-Policy Formulation Direction Research and other Miscellaneous Organisations". The cost of the Railway audit wing of the office of the Comptroller and Auditor-General is treated as charged expenditure in accordance with Article 112 (3) of the Constitution. Payments of all charges relating to Railway audit offices are made by the Railway Accounts Officers (of the respective Railways) who function as treasury officers and accounting officers for expenditure of the Railway Audit Department and exercise such checks as are prescribed from time to time by the Ministry of Railways in consultation with the Additional Deputy Comptroller and Auditor-General of India (Railways).

916 Communications from Audit.-Ordinarily, the results of statutory audit are communicated through-

- (1) Specific reports of the more important and serious irregularities discovered in the course of audit of accounts and departmental offices and station records.
- (2) Audit notes detailing minor irregularities discovered in the course of audit of accounts office records.
- (3) Inspection reports showing the results of audit of the initial records of executive offices and stations.

Note. A record of petty objections not formally raised is also maintained by Chief Auditors and sent periodically, as may be arranged, to the Financial Adviser and Chief Accounts Officers for scrutiny and review.

917 Disposal of Audit Objections.-All audit objections and notes should be promptly attended to by the Accounts Officer. Audit objections may either relate to matters which can be disposed of by the Accounts Officer himself without reference to the executive or to matters which can be elucidated only by the executive. In the former case, no reference should ordinarily be made by the Accounts Officer to the executive except to advise disallowances, if any, arising out of the audit objections. For the latter, the Accounts Officer should arrange to elicit necessary information for disposal of the audit objection; and if in his opinion, the audit objection should be upheld, he should arrange to see that suitable action is taken. The Accounts Officer should generally take the same action on defects and irregularities brought to notice by the Chief Auditor as he would take if they had been discovered in the course of internal check exercised in his own organisation.

918 Audit Notes and Inspections Reports.-An inspection report consists of two parts, Part I dealing with the more important matters and Part II dealing with the rest, containing minor routine matters. Audit notes detailing the results of monthly test-audit similarly consists of two parts and should be dealt with by the departments and accounts officers without delay.

The final disposal of Part II of the audit notes and inspection reports, whether on the accounts or executive offices, rests with the Accounts Officer, and no formal reply to the Chief Auditor is necessary. The disposal of such audit notes and inspection reports should, however, be made available to the Chief Auditor.

Replies to Part I of inspection reports and audit notes and specific reports on the more important irregularities should be sent to the Chief Auditor as soon as possible showing clearly the action taken thereon.

A record of the specific reports, audit notes Parts I and II and inspection reports, Parts I and II received from audit and dealt with or outstanding should be kept and reviewed periodically to ensure their prompt disposal. The connected records on which objections have been raised should not be destroyed till the objections are settled.

919 Replies to Inspection Reports :- Replies to inspection reports of executive offices should be sent by those offices to the Accounts Officer. In scrutinizing them, the Accounts Officer should call for further information, if necessary, and consult the head of the division or department, where desirable, before giving a reply to the Chief Auditor. The Accounts Officer should, in giving replies to the communications to the Chief Auditor, act in close collaboration with the administrative authorities concerned, so that the information given to audit may be an authoritative statement of facts on behalf of the Railway Administration, and there may be no possibility of any dispute at a later stage.

920 Disagreement between the Accounts Officer and the Chief Auditor - If the Accounts Officer is unable to accept the views of the Chief Auditor, he should, if requested by the latter, make a reference to the General Manager. When making such a reference, the Accounts Officer should send a verbatim copy of the Chief Auditor's objection and a statement of his own views. The General Manager should be requested to obtain the orders of the Railway Board if the matter is beyond his Competence to decide. However, when the question is one of accounts procedure, the matter should be referred to the Railway Board.

921 Audit Objections and Provisional Payments.- If the Chief Auditor objects to any payments of a recurring nature and it is considered necessary to continue them pending settlement of the objection, they may, if the objection is not on ground of violation of a law or a statutory rule, be made provisionally and subject to recovery, the payee being so informed. Unless there are strong reasons to the contrary in the view of the Financial Adviser and Chief Accounts Officer and the General Manager, if the audit view appears to be prima facie acceptable to the Accounts Officer, he should act upon the audit objection provisionally pending receipt of formal orders from higher authorities, if necessary. Under this procedure, where it is considered necessary to continue the payments, these should be treated as provisional and action taken to get the objection answered satisfactorily as early as possible.

922 Rectification of mistakes in Accounts disclosed by Audit.-If the audit scrutiny discloses any inaccuracy in the accounts compiled by the Accounts Officer the following procedure, which is equally applicable to mistakes detected in-internal check, should be adopted :-

(1) If the accounts of the year have not been finally closed the mistake should be rectified through the accounts of the month in hand.

(2) Mistakes and misclassifications noticed after the March accounts have been closed should be rectified before the Capital & Revenue Accounts and Finance Accounts are prepared and intimated to the Railway Board by the first week of August either through a revised account or through corrections to accounts already submitted.

(3) Mistakes and misclassifications noticed after the submission of the Capital & Revenue and Finance Accounts should be dealt with in accordance with the following rules :-

(a) No correction need be made, if the item properly belongs to one revenue or service head but is wrongly classified under another, a suitable note against the original entry being sufficient. If, however, the error affects the revenue or expenditure of another railway, or a branch line company or another Government Department or a capital head outside the Revenue Account or a debt or remittance head, it must be corrected.

(b) If the corrections, or transfers affect capital major heads, unless they affect the accounts of different Governments or represent readjustment of less important misclassifications of a previous year, they should usually be effected by altering the progressive figure of capital outlay without financial adjustment i.e. , without passing the debit and credit entries through the accounts of the year's financial transactions. This would prevent unnecessary inflation of the current year's accounts and the voting of grants which the inclusion of the correcting entries in the current accounts would otherwise involve.

(c) If the error affects a debt or remittance head, the procedure should be as follows: -

- (i) Item taken to one debt or remittance head instead of another:-The correction should be made by transferring it from the one to the other. Such corrections affecting the heads for which grants are obtained should be made as plus credit or minus credit under the heads concerned, instead of as minus debit or plus debit.
- (ii) Item credited to a debt or remittance head instead of a revenue head, or debited to a debt or remittance head instead of to a service head.-The correction should be made by transferring it to the head under which it should originally appear.
- (iii) Item credited or debited to a revenue head instead of to a debt or remittance head- The correction should be made by minus crediting or minus debiting the revenue head and crediting or debiting the proper head.

(4) If the rectification of a mistake would lead to an excess over a grant or grants voted by the Parliament or an appropriation sanctioned by the President or to a considerable change in the dividend payable during the year to general revenues, the orders of the Financial Commissioner, Railways must be first obtained.

923 Audit Report-Railways.-The Additional Deputy Comptroller and Auditor-General of India (Railways) and ex-officio Director of Railway Audit is responsible for preparation of the Report of the Comptroller and Auditor-General of India, Union Government (Railways) which also includes comments on the Appropriation Accounts of Railways compiled by Ministry of Railways (Railway Board).

924 All important cases coming to notice of Audit during inspections or regular audit which, in the opinion of the Chief Auditor, merit inclusion in the Report of the Comptroller and Auditor-General are, ordinarily, brought to the notice of the Railway Administrations through special letters, notes of objection or factual statements issued to the Heads of Departments/Financial Adviser and Chief Accounts Officers by the Chief Auditors of the Railways. The Railway Administrations should take up with promptitude the scrutiny of the facts brought out therein and send their replies to the Chief Auditor within the time prescribed for the purpose. Since these special letters, factual statements, etc., form the basis of the material for the Report of the Comptroller and Auditor General, the Railway Administrations should deal with them at a sufficiently high level and bring out their point of view in a convincing manner so that the Chief Auditors may have the full presentation of the Railway's case before they proceed to prepare a draft paragraph for incorporation in the Audit Report.

925 The Chief Auditors sends the draft paragraphs to the General Manager. He also sends simultaneously advance copies of the draft paragraphs with connected correspondence, to the Financial Adviser and Chief Accounts Officer, the Head of the Department concerned, the Additional Deputy Comptroller and Auditor-General of India (Railways) and the Director (Accounts), Railway Board to facilitate prompt action and detailed examination of the points brought out in the draft paragraph. The General Manager should send the reply to the draft paragraph to the Chief Auditor, duly approved by the Ministry of Railways,(Railway Board), within eight weeks, simultaneously endorsing copies to the Additional Deputy Comptroller and Auditor-General of India (Railways), and Director, Accounts (Railway Board). To enable the Railway Board to approve the draft reply prepared by the Railway Administration, the General Manager should furnish the following additional information to the Railway Board along with the proposed reply to draft paragraph. :-

- (i) A history of the case with copies of relevant correspondence not covered in the Chief Auditor's letter.
- (ii) Sentence-wise comments on the draft para specifically verifying /correcting the facts and figures quoted therein.
- (iii) A chronological summary of the case where there has been unusual delay in dealing with the subject matter.
- (iv) Remedial action called for or taken to avoid similar cases in future.
- (v) Disciplinary aspects where individual lapses have been brought to light.

Any aspects which the Railway Administration, may wish the Chief Auditor to consider before sending the final reply should, as far as possible, be settled by personal discussions so that the time limit may not be exceeded.

926 Draft paragraphs on matters arising from the scrutiny of Railway Board's contracts, schemes and sanctions etc., are issued by the Additional Deputy Comptroller and Auditor-General of India (Railways) addressed to the Railway Board. In such cases the material which is required to be furnished by the Chief Auditors of Railways to the Additional Deputy Comptroller and Auditor-General of India (Railways) should be vetted promptly by the Financial Adviser and Chief Accounts Officers of Railways, when they are requested to do so. Enquiries, if any, made by the Additional Deputy Comptroller and Auditor-General of India (Railways) for further information should be given high priority and, as far as possible, such information should be supplied promptly to the Chief Auditor by the Railway Administrations duly vetted by the Financial Adviser and Chief Accounts Officer for onward transmission to the Additional Deputy Comptroller and Auditor-General of India (Railways). The Additional Deputy Comptroller and Auditor-General of India (Railways) will send the edited paragraphs to the Railway Board for verification of facts and clarification on any point which the Railway Board may like to give before the paragraph is finalised by the Additional Deputy Comptroller and Auditor General of India (Railways) for inclusion in the Report. A time-limit is usually specified within which the Railway Board are expected to complete the factual verification or offer their comments on these revised/edited paragraphs. These revised paragraphs should, on receipt by the Railway Board/Railway Administration, be scrutinized promptly with utmost care as it is not possible to correct any factual inaccuracies in the draft paragraphs at a later stage.

927 The Report of the Comptroller and Auditor General of India is presented to the Parliament, generally during the Budget session, where it is taken up for consideration by the Public Accounts Committee consisting of members of Lok Sabha and Rajya Sabha. The Committee obtains personal evidence of senior officers of the Railway Board in respect of the various items in the comptroller and Auditor General's Report. The results of the deliberations of the Public Accounts Committee are published in the form of Reports which are laid on the table of each House of Parliament and forwarded to the Ministry of Railways (Railway Board). These Reports contain the recommendations of the Public Accounts Committee for implementation by the Ministry of Railways.

928 The recommendations made by the Public Accounts Committee are considered by the Ministry of Railways. (Railway Board), and other Ministries of Government of India where, some of the observations and recommendations concern them also, and notes on action taken on the Public Accounts Committee's recommendations are submitted to the Committee, along with any comments which Audit department may have to make on these notes, within six months of the date of presentation of the Reports.

Ministry of Railways (Railway Board)