

**INSTITUTIONAL ACCOUNTABILITY: AN ANALYSIS OF THE
OFFICE OF COMPTROLLER AND AUDITOR GENERAL (C&AG) OF
INDIA**

*Dissertation submitted to the Jawaharlal Nehru University
in partial fulfillment of the requirements
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MASTER OF PHILOSOPHY

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DECLARATION

This is to certify that the dissertation entitled “**INSTITUTIONAL ACCOUNTABILITY: AN ANALYSIS OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA (C&AG) OF INDIA**” submitted by Jyoti in partial fulfilment of the requirements for the award of the degree of **Master of Philosophy** of this university. The dissertation has not been submitted for the award of any other degree in this university or any other university and is her own work.

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CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

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ABBREVIATIONS

A&E:	Accounting & Entitlement
Ar.GI:	Auditor General
AsG:	Accountant General
ASOSAI:	Asian Organization of Supreme Audit Institutions
C&AG:	Comptroller and Auditor General of India
CBI:	Central Bureau of Investigation
CVC:	Central Vigilance Commission
COPU:	Committee of Public Undertakings
GAO:	General Accounting Office
GASAB:	Government Accounting Standards Advisory Board
IAAD:	Indian Audit and Accounts Department
INTOSAI:	International Organization of Supreme Audit Institutions
IT:	Information Technology
OSD:	Officers on Special Duty
PAAs G:	Principal Accountant General
PAC:	Public Accounts Committee
P&T:	Post and Telegraphs
SAI:	Supreme Audit Institutions
UK:	United Kingdom

INTRODUCTION

INTRODUCTION

The liberal democratic state of present times is multifunctional with various responsibilities ranging from protection of individual to the welfare of the society as a whole. The state discharges its responsibilities through various interdependent organs and institutions. The legitimacy of state democracy is dependent upon the transparency and efficient working of its institutions which enhances the prospects of legitimacy of liberal democratic state. The necessity and importance of the institutions is the key aspect of the welfare state. The institution affects the working of the democratic state and prospects for stabilizing and consolidating democracy. The accountability of state institutions is necessary in order to uphold this legitimacy.

Comptroller and Auditor General (hereinafter 'C&AG') as an institution within the framework of democracy checks and ensure the accountability of other institutions. It is an investigating agency and also an institution of accountability that has been created to verify on the behalf of the legislature that the expenditure or revenue incurred collected by the executive is in accordance with the letter and spirit of the demand made by the legislature. The discussion on accountability will opens up with the general understanding of the meaning of accountability, its different connotations and forms. According to Richard Mulgan¹, accountability is an ever expanding concept (in his own words) which has become a 'complex and a chameleon like term concept and has greatly focussed the attention of public administration literature. One sense of 'accountability', on which all are agreed, is that associated with the process of being called 'to account' to some authority for one's actions. Indeed, this sense may fairly be designated the original or core sense of 'accountability' because it is the sense with the longest pedigree in the relevant literature and in the understanding of practitioners. Such accountability has a number of features: it is external, in that the account is given to some other person or body outside the person or body being held accountable; it involves social interaction and exchange, in that one side, that calling for the account, seeks answers and rectification while the other side, that being held accountable, responds and accepts sanctions; it implies rights of authority, in that those calling for an account are asserting rights of superior authority

¹ Richard Mulgan, 'Accountability: an ever expanding concept', *Public Administration*, Vol. 78, No. 3, 2000, pp. 555-573.

over those who are accountable, including the rights to demand answers and to impose sanctions. Institutions of accountability includes all institutions that are aimed at controlling or constraining government power, for instance, legislatures, statutory authorities, and courts. Devices of accountability then include the separation of powers, federalism, constitutionalism, judicial review, the rule of law, public service codes of conduct and so on, all of which have an effect on the control of public power. Here also to be added are the key extra- governmental institutions of a democratically effective civil society which helps to constrain governments, for instance, competitive markets, interest groups and the mass media. In this way, accountability threatens to extend its reach over the entire field of institutional design.’

This dissertation has been divided into 3 Chapters that are concerns with the definition, its genesis of the office of C&AG and its structure, nature and functioning. The first chapter of the dissertation revolves around the theoretical understanding of the term institution and deals with the question of why to study an institution? It revolves around the questions such as what does the term institution and for different scholars from different fields like political science, economics, history, sociology, anthropology used by them in different contexts and times for instance. After developing an idea about the meaning of the institution, the chapter will proceed with the discussion of various perspectives/ approaches to study an institution. There are two popular schools by which an institution has been studied and these popular schools of thought comprises of old institutionalism and new institutionalism. The study of an institution has gone through transition from old institutionalism to new institutionalism.

The old institutionalism covers the legal-institutional and behavioural perspectives and the new institutionalism consists of the historical, sociological- structural and rational perspectives and how the Indian scholars attempt to provides an understanding to the study of an institution. It will later explicate the institutional debates that had taken place in India since the drafting of the Constitution period till the present time since thee focus of the study is C&AG of India as an institution of accountability and its analysis and try to explain the positions of these institutions as general during the phases wise, like, the position during Nehru era, then Indira Gandhi era and so on. It will look into the debates of Parliament- Executive- Judiciary relations over these phases and try to locate their answer from the contentious debates that occur in the country over the period of time where the main issue

was to who is more supreme over the other are the few key questions which we will try to answer in this part.

The question two as to why there is need arises to study an institution can be possibly answered by locating the literature available. How much it is in abundance or just lacking the area of the political scientists. So our area of study is institution and that also specifically to India. Coming to the literature part as we are dealing with the office of Comptroller and Auditor General of India, we need to first locate the course of our study in the larger framework in the Indian Politics not sticking only the C&AG as of now. Coming to Indian Politics, we see that literature on institutions is restricted to very few areas or else we can say that it is the neglected area of the study among the social scientists. Whatever the literature is available, it is occupied with the studies on electoral politics/ voting processes, caste based studies and political economy part. Very few studies are found on Indian Parliament; W. H. Morris Jones, 'Indian Parliament' (1957) K.V. Rao, 'Parliament Democracy of India: A Critical Commentary' (1965), W.H. Morris Jones, 'Parliament in India' (1975). Indian scholars like Subash Kashyap, Surya Prakash, S.L. Shakhder, Devesh Kapur & Pratap Bhanu Mehta and others and the recent edited book by B.L.Shankar and Valerian Rodrigues have contributed and filled the gap with their writings on Indian Parliament. One found immense literature on electoral politics, caste and on the political economy thing. There has been less focus on the study of institutions, like civil services, the courts, the police, the parliament, the judiciary and regulatory bodies and the institutions of external oversight and monitoring. If one looks at the literature on the oversight institution specially Comptroller and Auditor General which is theme of our study, one finds very few studies on this and whatever the available literature is there, they all are written by the none other than CAG's of their time. No one outside this office has contributed to this office, so this office is highly uninterested among the scholars. The first book on Comptroller and Auditor General was published in the year 1967 was by M.S. Ramayyar and the people who in some how have any connections with this office.

In the continuance of the first part of the dissertation, the second chapter deals with the office of C&AG of India, will first try to find the approach from the above mentioned approaches which will be suitable for studying the institution like C&AG. Since this institution is a product of the colonial rule and being an institution, so looking this institution from the lens of legal-institutional and historical perspectives will be appropriate for this

institution.. How this institution has evolved over the years and taken the present shape and the significant changes that it has gone through over the time. It would become important here to go through this institution by first has a glance of the Constituent Assembly Debates regarding the powers, position of this office.

The third and final chapter of the dissertation will be the most crucial and challenging part of the study upon which whole dissertation is based, that is on the changing nature and functioning of the office of C&AG and the impact of C&AG audit/ reviews on the Government decision making process. Does it poses an impediment in its decision making or paves a healthy way in the decision making process. Does it lead to the change in the policies and rules of the government? and relationship between C&AG and media. The chapter will focus on the structural aspects of the office by looking at the organizational aspects of the office, selection criteria of appointing a C&AG and the functions of C&AG. For the changing nature and functioning of this office, the study will focus on the various points of SAI's India into international auditing for the first time, emergence of new kinds of audits in different fields, building up of several new institutions like IPAI, ICISA Noida, organisational setting up of this office, role of media, emergence of 73rd and 74th amendments that explains the audit of local bodies, Has it because of the liberalisation policies or other things responsible for it. It will also look at the relationship between C&AG and PAC through various years Performance- Activity Reports of the C&AG. This sub part will be using the systematic-analytical approach to study the cases of irregularities over the years and how active the C&AG played a role in that irregularity or was behind the curtain and will also explains the relationship between C&AG and media.

At the end of this introduction, it can be said that is very limited kind of study which restricts the study only to one or two perspective through which an institution like C&AG can be studied. It left us with more avenues and junctures for the study. It will also do the critical appraisal of this office while answering the possible constraints and limitations of this office and what will be the possible suggestions we can further provide to it to make this office effective.

CHAPTER- I

CHAPTER I

INSTITUTIONS: MEANING AND PERSPECTIVES

“Political democracy stands not only on economic and social conditions but also on the design of political institutions”.¹

March and Olsen

“Institutions come into being only if they are able to establish their legitimacy. They persist only if they are able to sustain their legitimacy”.²

Steve Skowronek

Institutions play a fundamental role in the structuring of the organization of any state. The study of political institutions is central to the discipline of political science. When political science emerged as a separate field, it emphasized the study of formal-legal arrangements as its exclusive subject matter.³ Political science in its early phase stressed heavily on the study of public law that concern formal governmental organizations, i.e. in the study of constitutional structure covering the study of written constitution. According to March and Olsen, “traditional political institutions have receded from the position they held in the earlier theories of political scientists”.⁴ They criticize contemporary political science because it is *contextual* or socio-centric, emphasizing the social context of political behavior and downgrading the importance of the state as an independent cause⁵,

¹ James. G. March and J. P. Olsen, *Rediscovering Institutions: the Organizational Basis of Politics*, New York: Free Press, 1989, p. 17.

² James. T. Kloppenberg, ‘Institutionalism, Rational choice, and Historical Analysis’, *Polity*, Vol. 28, No. 1, Autumn, 1995, p.125.

³ H. Eckstein, ‘A perspective on comparative politics: past and present’, in H. Eckstein et.al. (ed.), *Comparative Politics: A Reader*, Glencoe, Ill.: Free Press, 1963, pp. 10-11.

⁴ James. G. March and J. P. Olsen, ‘The New Institutionalism: Organizational factors in political life’, *American Political Science Review*, Vol. 78, 1984, p. 734.

⁵ *Ibid*, p. 735.

reductionist in explaining politics as the outcome of individual actions⁶ and *utilitarian* in explaining individual actions as motivated by rational self interest.⁷

The studies on institutions have been relatively neglected in the literature in Indian politics rather more focus has been given to the processes. The available literature in Indian politics has always been occupied with the writings on electoral/ voting processes, political economy and the election based studies and less focus on the study of institutions, like civil services, the courts, the police, the parliament, regulatory bodies and the institutions of external oversight and monitoring. Thus there are also very few other studies/ writings on the '*oversight*'⁸ institutions in India, i.e. on C&AG, CVC and CBI and that also had been written long time back, so a lot more can be done by taking into consideration these type of study that has received less attention by the scholars. Here my study is only focusing on the one amongst the above mentioned oversight institution, that is on Comptroller and Auditor General. Henceforth, no recent literature is available on C&AG except the reports that came out yearly and the various scams that have been taken place in the country and the last year Commonwealth Games and 2G Spectrum scams have again bring the role of C&AG into the picture. This chapter would explicate how to study institutions and what are the different approaches/ perspectives while studying institutions. Before looking into the aspect of how to study institutions, the first question arises what an institution is? An institution can be political, social, economic, and religious. The chapter starts initially with the general meaning of the term institution to a more broad understanding of the term as developed by the social scientists from time to time. How the different scholars (political science, sociology and economics) had viewed institution and which office they regard as of a principal concern are the key questions that would be discussed in the chapter and which approach will fit in the Indian case? This chapter would focus on these key questions and for this the

⁶ Ibid, p. 735-36.

⁷ Ibid, p. 736-37.

⁸ The term '*oversight*' has been used by Devesh Kapur and Pratap Bhanu Mehta in Devesh Kapur and Pratap Bhanu Mehta (ed.), *Public Institutions in India: Performance and Design*, New Delhi: Oxford University Press, 2005, p. 16. They categorised 5 institutions as an institutions of Oversight and Restraint, i.e., Parliament, The Presidency, C&AG, CBI and CVC, Judiciary and Police. Oversight mechanisms are the specialized institutions of accountability and in the case of the office of C&AG, they are accountable to Parliament as the consumer of C&AG is Parliament.

chapter is divided into three sections: First section would explain the different connotations of the term institution as proposed by the different theories and the various approaches to study it. Second part would focus on the debate on institutions in the Indian context ever since the Constitution has appear into being starting from the Nehruvian era till the present position. Last would be the concluding part.

I

MEANING OF THE TERM 'INSTITUTION'

The root of political science lies in the study of institutions. Any kind of study on the type of institutions we are going to study whether it is political, social or economic, would start basically from what is an institution and why and how the study would contribute to the field of social sciences in the long run and there are different ways of studying an institution as suggested by scholars from different fields. But before going into how different scholars had suggested the ways by which an institution can be studied, we need to first see just what an institution is? There is no one single definition of the term institution. Scholars had viewed the term 'institution' differently. "The term institution has many meanings and is used so widely and across different disciplines ranging from law and political theory to sociology and cultural anthropology".⁹ The term institution has several dimensions ranging from formal interpretation to the larger informal interpretation. The general understanding of the term institution denotes that institution is rules or norms which are backed by some sort of sanctions and boundaries, in other words , in case of any violation of rule or norm would considered to be an illegitimate. Institution is a system, a large 'wholes' which are formed by coupling together of many small bodies or simply called the network or web of institutions, i.e. whole consists of the aggregation of small parts or constituents. For instance, a University or a Parliament is the larger entities comprised of small entities. A University is an institutional body comprised of scholars, students and administrative staff in carrying out the research and

⁹ Andre Beteille, *Universities at the Crossroads*, New Delhi: Oxford University Press, 2010, pp. 114-33.

education, in absence of any of the single body would create an imbalance in the structure. This is the atomistic view point of institutions which sees institutions as separate entities that are connected more or less accidentally into a whole. This is the atomistic view point of the institution. In this way office of C&AG is also an institution that comprised of auditors and accountants that are accountable to him. In this way, no institution exists in isolation. On the other side is the organic aspect which sees this aggregation in a quite different way. It agrees that institutions consist of parts but that connection is constructed in a more cohesive, an organized way, means that the parts are fitted in their right place where it meant to be put.

The increased focus on the importance of political institutions during the 1980s had many sources. Institutional theories have emerged as a powerful framework for understanding political and social behavior in a broader sense. Institution refers not only to political organizations but also the aggregations of norms, values, rules and practices. Institutional theory thus attempts to explain some of the key problems in contemporary political science. The different discipline deals with different kinds of institutions, depending on their area of special interest. Thus, jurisprudence deal with legal institutions, political science deals with political institutions and economics deals with the economic institutions and sociology in this respect deals with all institutions viewing all of them as social facts as institutions gives order to social relations.

The post second world war era in the United States rejected the dominant views which were in the favor of two theoretical approaches based more on individualistic assumptions: behavioralism and the rational choice. Both these approaches assume that individuals act autonomously as individuals.¹⁰ A new institutionalism, a prominent social theory that focuses on developing a comprehensive study of institutions, the way they interact and the effect of institutions on society, thus providing a way of viewing how these institutions evolve in very different ways or how the institutions shape the behavior of individual members and produce change.¹¹ New institutionalism has become a dominant concern area of study in the social sciences in the 1990's. Old and new

¹⁰ B Guy Peters, *Institutional theory in political science: The New Institutionalism*, London & New York: Pinter, 1999.

¹¹ Ibid, p. 15.

institutionalists claim that institutions bring about or enhance outcomes. Institutionalization is a process through which rules or norms are implemented in the sense that they meet with acceptance. Institutions or rules are extremely important for the outcomes of human interaction and if institutions matter for political, social and economic outcomes, then what are those ways in which they have their partial impact in relation to other major factors such as culture and social structure and what are those institutions that matter and what is the basic criteria for the selection of that institution which will suit the conditions. To what extent the operation of political institutions has specific results that one may wish to label good or bad. The difference between a good society and a good polity, on the one hand, and a bad society and a bad polity, on the other, largely depends upon the nature, strength and efficacy of public institutions. Institutions define and play a regulatory role with regard to human behavior. Institutions shape preferences, power and privilege. At the same time, institutions themselves can be transformed by the politics they produce and such transformation can affect social norms and behavior. Once established, institutions set up a dynamic relationship with the members constituting them and mutually affect each other.¹²

There are two conceptions of institution: one is thin interpretation of institution and the other is the thick interpretation of institution. According to the thin interpretation of institution, a group can be governed not only by one specific institution rather governed by alternative institutions and impact the behaviour of the individuals accordingly. It implies that the institutions are analytically distinct from other factors that shape the behavior of the individual, such as preferences, interests. If the institutions are changed then the behavior may change, even though the interests and preferences of the group participating in it remains the same. This kind of interpretation can be linked to the rational choice orientation who views institutions as rules in the strict form of norms.¹³ On contrary to the thin interpretation is the thick interpretation of an institution which consists of more than merely a rule or a norm. In this, basically people or personality become an institution and is more considered as a practice. The thick conception of an

¹² B.L.Shankar, Valerian Rodrigues (ed), *The Indian Parliament: A Democracy at Work*, New York: Oxford University Press, 2011, pp. 1- 2.

¹³ Jan Erik Lane and Svante Errson (ed), *The New Institutional Politics: Performance and Outcomes*, London and New York: Routledge, 2000, p. 4

institution as a practice can be linked to the sociological approach to the institutions in which institutions comprises of routines, conventions, roles, strategies, codes, culture, knowledge, etc.¹⁴

The basic building blocks of institutions are rules, and these rules are connected and sustained through identities, through senses of membership in groups and recognition of roles. Rules and repertoires of practices embody historical experience and stabilize norms, expectations, and resources; they provide explanations and justification for rules and standard ways of doing things.¹⁵ According to Crawford and Ostrom, the central pieces of an institution are strategies, norms and rules and these are two important building blocks of an institutional system.¹⁶

VARIOUS PERSPECTIVES/ APPROACHES FOR STUDYING INSTITUTIONS

A. GLOBAL PERSPECTIVE

In the above part, we discussed the meaning of the term institution, this part of the section would focus on the various approaches or perspectives for studying an institution and several approaches have been taken to answer the question as what an institution is, ranging from the legal- institutional approach which is a part of old institutionalism to a rational choice perspective being a part of new institutionalism and how one approach totally rejects the earlier one and takeover the study of the institution? Old institutionalism comprises of two approaches: legal- institutional/ formal approach and behavioral approach. New institutionalists approaches developed in reaction to the

¹⁴ James March and J Olsen, *Rediscovering Institutions: the Organisational Basis of Politics*, New York: Free Press, 1989, p. 22.

¹⁵ See James G March and J Olsen, 'The New Institutionalism: Organisational Factors in Political Life', *The American Political Science Review*, Vol. 78, No. 3, September 1984, pp. 734-749. James G March and J Olsen, *Rediscovering Institutions: the Organisational Basis of Politics*, New York: Free Press, 1989.

¹⁶ E. Ostrom, *Understanding Institutional Diversity*, Princeton: Princeton University Press, 2005, p. 140.

behavioural perspectives that were influential during the 1950's and 1960's¹⁷ and major proponents of different new institutionalism approaches criticize the preceding approaches this includes three approaches, i.e. sociological- structural, historical and the rational choice approaches.

❖ **Legal- Institutional approach to institutions:** The legal institutional inquiry involves two emphases. One it attempts to understand politics in terms of law, focusing the attention on the legal aspect: hence the *legal* and constitutional framework in which different organs of government functions. It enquires into their respective legal position, powers and procedures which make their actions legally valid. The other involves the study of formal governmental organizations: hence the term *formal or institutional*. The institutional approach is closely related to legal aspect. It emphasizes exclusively the formal aspects of government and politics. Legalism is the first defining characteristic that has emerged from the old institutionalism which is concerned with the law and the central role of law is governing. To be concerned with political institutions is concerned with the law. This approach implies that law is the product of human agency and the law was thus an institution.¹⁸ This includes not just written constitution but anything that clearly prescribes rules for processes and organization of authority. These institutionalists give too much importance to the constitutional tradition and they are less concerned with what people do in government than with the nature of the legal rules that govern their functioning and therefore much more inclined in explicating what the roles mean.¹⁹ The principal questions in this approach remained institutional and normative. Thus these studies become highly descriptive in its form and David Truman refers to these kinds of studies as “institutional description.” Political science was about the formal aspects of government, including law and it primarily focuses on the machinery of the governing

¹⁷ Peter A Hall and Rosemary C R Taylor, 'Political Science and the three New Institutionalism', *Political Studies*, Vol. 44, 1996, p 936.

¹⁸ See B. Guy Peters, *Institutional Theory in Political Science: The 'New Institutionalism*, London and New York: Pinter, 1999, pp. 6-7. Gavia Drewry, 'Political Institutions: Legal Perspectives' in Robert E. Goodin and Hans- Dieter Klingemann (ed) *A New Handbook of Political Science*, New York: Oxford University Press, 1996, pp. 191- 204.

¹⁹ Henry Eckstein, 'On the "Science" of the State', *Daedalus*, Vol. 108, No. 4, The State (Fall), 1979, pp. 2-5.

system. People associated with this school were Woodrow Wilson, Lord Bryce, A. V. Dicey, Kenneth Wheare, Maurice Duverger and many more.

❖ **Behavioural approach to institutions:** Behavioural approach comes to dominate the social sciences in 1950's till 60's. It focuses on individual actions, theory and analytic methods. The behavioural revolution in American Political Science was a reaction to the legal approach. It highlights the instability of individual action or choice. Theory development is one of the most important distinguishing features of the behavioural revolution. If political science had to develop a true science then it had to develop theory.²⁰ Behavioralism assumes that politics can be reduced to individual behaviour and that political outcomes result from individual decisions and actions.²¹ Behavioralism seeks to examine the behaviour, actions, and acts of individuals – rather than the characteristics of institutions such as legislatures, executives, and judiciaries and groups in different social settings and explain this behavior as it relates to the political system. The origins of behavioralism is often attributed to the work of Charles Merriam, who emphasized the importance of examining political behaviour of individuals and group rather than only considering how they abide by legal or formal rules.

The above two approaches constitutes the defining characteristics of old institutionalism. Even in India, in its early phase Political Science was expectedly linked to the British legal- historical and legal-institutional tradition. The literature available at that time since 1950's, a number of books on Indian Constitution and Government had been published. The most reliable text books on Indian Constitution were law books, relevant to the courts of law.²² The other three following school of thought could be labelled as constituting the features of new institutionalism and these are historical institutionalism, sociological-structural institutionalism and rational choice institutionalism. In spite of these three schools of thought which we will study next, there is also fourth such school

²⁰ B. Guy Peters, *Institutional Theory in Political Science: The 'New Institutionalism*, London and New York: Pinter, 1999, p.12.

²¹ James G. March and Johan P. Olsen, *Rediscovering Institutions: The organisational Basis of Politics*, USA: The Free Press, 1989, pp. 4-5.

²² Shibani Kinkar Chaube, 'Studies on the Constitution and Government of India: A Methodological Survey', *Teaching Politics*, Vol. 4, No. 1&2, 1978, pp. 1-2.

that has been identified by the social scientists as ‘the new institutionalism in economics’. However, new institutionalism and economics and rational choice have common characteristics and so they are treated as together by scholars at many times. Rational choice puts more stress on strategic interaction, while the new institutionalism in economics puts emphasis on property rights, rents, and competitive selection mechanisms.²³ The following three approaches have received wide attention in political science. Even in the literature on the approaches on the new institutionalism, scholars within the three groups are often confused with each other. One reason is that each one group make claim of studying institutions independently and totally different of the other group claims. The first group employs the traditional methods of political science especially historical investigation and qualitative analysis with an emphasis on institutional change and dynamics. The alleged novelty of this first approach lies not in its research methodology, but in its broadened perspectives of institutions which include factors such as culture, norms and routines. The second group is composed of rational choice theorists who attempt to incorporate institutional constraints upon individual behavior into their original approach which is based on an assumption of economic rationality. It is new in the sense that they add institutional factors to the analytical framework of micro- economics or public choice theory. The third group i.e. least well known and often confused with the second group as they used the concept of bounded rationality as presented by Simon²⁴ who considered institutions to be the organizations in which individual behavior is promoted²⁵ and this approach based on bounded rationality is further used by North who analyses the relationship between institutional change and economic performance.²⁶ This approach seeks a middle ground between the socio-historical approach and rational choice approach as it regards the institutions or

²³ Footnote 1 in Peter A. Hall and Rosemary C. R. Taylor, ‘Political Science and the Three New Institutionalism’, *Political Studies*, Vol. 44, 1996, p. 936.

²⁴ Herbert A. Simon, ‘A Behavioural Model of Rational Choice’, *Quarterly Journal of Economics*, Vol. 69, No. 1, February 1955, pp. 99-118.

²⁵ Junko Kato, ‘Institutions and Rationality in Politics - Three Varieties of Neo-Institutionalists’, *British Journal of Political Science*, Vol. 26, No. 4, October 1996, pp. 553-554.

²⁶ D. C. North, *Institutions, Institutional change and Economic Performance*, Cambridge: Cambridge University Press, 1990.

organizations as the possible settings in which the rational behavior of individual actors is promoted and enhanced. These three approaches are as follows:

❖ **Historical approach to institutions**²⁷: Historical institutionalism was the first type of the new institutionalism to emerge in the discipline of political science.²⁸ The central logic of historical institutionalism is to take into consideration the historical development of the institutions²⁹, to explain the persistence of the institutions and their policies rather than to evaluate the nature of those policies and institutions. Historical Institutionalism pays more attention to the long-term viability of institutions and their broad consequences. This approach does not deny that individuals attempt to calculate their interests but argues that the outcomes are the product of the interaction among various groups, interests and institutional structures. For historical institutionalists, institutions play a determinant role since they shape the actions of individuals and at times affected by collective and individual choices.³⁰ Thelen and Steinmo define institutions by means of examples, ranging from formal government structures (legislatures) through legal institutions (electoral laws) through more vague social institutions (social class), as components of the institutional apparatus that will use to

²⁷ See B. Guy Peters, *Institutional theory in Political Science: The 'New Institutionalism'*, London and New York: Pinter, 1999, pp. 63-77. Kathleen Thelen and Sven Steinmo, 'Historical institutionalism in comparative politics', in Kathleen Thelen, Sven Steinmo and Frank Longstreth (ed.), *Structuring politics: Historical Institutionalism in Comparative Analysis*, Cambridge: Cambridge University Press, 1992, pp. 1-32; Peter A Hall and Rosemary C R Taylor, 'Political Science and the Three New Institutionalism', *Political Studies*, Vol. 44, 1996, pp. 937-942; Kathleen Thelen, 'Historical Institutionalism in Comparative Politics', *Annual Review of Political Science*, Vol. 2, 1999, pp. 369- 404; Junko Kato, 'Institutions and Rationality in Politics- Three Varieties of Neo- Institutionalists', *Journal of Political Science*, Vol. 26, No.4, October 1996, pp. 553-582; B. Guy Peters, 'Political Institutions, Old and New' in Robert E. Goodin and Hans-Dieter Klingemann (ed), *A New Handbook of Political Science*, New York: Oxford University Press, 1996, pp. 210-211; Elizabeth Sanders, 'Historical Institutionalism', in R. A. W. Rhodes, Sarah A. Binder and Bert A. Rockman (ed.), *The Oxford Handbook of Political Institutions*, New York: Oxford University Press, 2006, pp. 39-55.

²⁸ B. Guy Peters, *Institutional theory in Political Science: The 'New Institutionalism*, London and New York: Pinter, 1999, pp. 63-77.

²⁹ Elizabeth Sanders, 'Historical Institutionalism', in R. A. W. Rhodes, Sarah A. Binder and Bert A. Rockman (ed.), *The Oxford Handbook of Political Institutions*, New York: Oxford University Press, 2006, pp. 39-55.

³⁰ Thomas A. Koelble, 'The New Institutionalism in Political Science and Sociology', *Comparative Politics*, Vol. 27, No. 2, January 1995, pp. 232.

explain political phenomenon.³¹ Peter Hall claim that the old institutionalism did not allow for systematic cross-country comparisons since it focused mainly on administrative and political structures and remained highly normative. Theodore Lowi definition of institutions was the legalistic one that most historical institutionalists have adopted. Institutions for Lowi were not just any set of behaviour constraining rules or social norms, but the formal rules and procedures established by the action of governments, and backed, ultimately, by the coercive power of the state. People involved with this school

are Peter Hall, Thelen and Steinmo, Theda Skocpol, Peter Katzenstein. So in general, historical institutionalists' definition of institutions that includes both formal organizations and informal rules and procedures that structure conduct.

❖ **Sociological-Structural approach to institutions³²:** The study of institutions is of great importance to sociology. The roots of institutionalism in sociology can be traced back to the leading theorists like Max Weber, Emile Durkheim, Talcott Parsons, Philip Seznick, S.N. Eisenstadt and the contemporary sociological institutionalism theorists are people like James March and Johan P Olsen and W R Scott. James March and Johan P Olsen gives central role to the values and symbols in defining an institution and in guiding the behaviour of its members.³³ It brings together the basic concerns of sociology: Social morphology or the structure of roles and relationship on the one hand and on the other, the norms and values that gives meaning and legitimacy to these roles and relationships.³⁴ Sociological literature on institutions focuses in explaining the process of creating institutions than in describing the characteristics of the institutions resulting from those processes. Even amongst sociologists, the term has two different

³¹ 'The Legacy of the Past: Historical Institutionalism', in B. Guy Peters, *Institutional theory in Political Science: The New Institutionalism*, London and New York: Pinter, 1999, pp. 65-68.

³² See 'Sociological Institutionalism', in B. Guy Peters, *Institutional theory in Political Science: The New Institutionalism*, London and New York: Pinter, 1999, pp. 97-111; W. R. Scott, 'The Adolescence of Institutional Theory', *Administrative Science Quarterly*, Vol. 32, 1987, pp. 493-511; 'The Problem of Controlled Institutional Change', in Talcott Parsons, *Essays in Sociological Theory*, Gleonce: The Free Press, 1954, pp. 239- 245.

³³ See James. G. March and Johan P. Olsen, 'The New Institutionalism: Organizational Factors in Political Life,' *American Political Science Review*, Vol. 78, 1984, pp. 738-49; James. G. March and Johan P. Olsen, *Rediscovering Institutions*, New York: Free Press, 1989.

³⁴ Andre Beteille, *Antinomies of Society: Essays on Ideologies and Institutions*, New Delhi: Oxford University Press, 2000.

though related meanings. In the first sense, an institution is an enduring group with distinct physical identity of its own and boundaries of its own that mark it out from its environment. In the second sense, it is a pattern of activities that are recurrent, legitimate and meaningful. Thus for the sociologists not only the court but also the law is an institution, not only the school is an institution but also education. In both senses, the institution has to be distinguished from the individuals and from acts that are peculiar to particular individuals.³⁵ In the words of Henry Maine, ‘Corporations never die’; they are ‘perpetual and inextinguishable’.³⁶ It means that an institution retains its structure even as its old actors are replaced by the new ones and in designing new institutions, one cannot eradicate the past- its habits, customs, manners, attitudes and its institutions. The older institution does not become extinct. So an institution has an enduring basis. Andre Beteille highlighted two institutional settings that provide appropriate social and cultural environment for the pursuit of intellectual activity and where intellectual’s mind is nourished and these settings are (a) the university system and (b) the political party system, i.e., multi- party political system in a democratic polity³⁷ and gives importance to the former than the latter. So in total sociological interpretation of institutions includes the morphological structure of roles and relationships, the temporal order of activities, and the explicit and implicit codes of conduct. In the words of Kailash K. K., ‘all institutions have at their core certain values and ideals and these ideals and values are intrinsic within the institutions. The institution can exist and persist only with the existence of them and it provides the building blocks of the institution. It does not matter how the institution manifests itself, these basic core values and ideals are there in all state of affairs kind even if they are not prominent.’³⁸

According to Robert Goodin, the old institutionalism within sociology focused upon the ways in which collective entities or we can say those intermediate organizations like the

³⁵ Andre Beteille, ‘The Institutions of Democracy’, *Economic and Political Weekly*, Vol. 46, No. 29, July 16- 22, 2011, p. 77.

³⁶ Henry Summer Maine, *Ancient Law*, London: Oxford University Press, 1931, p. 104.

³⁷ Andre Beteille, *Antinomies of Society: Essays on Ideologies and Institutions*, Delhi: Oxford University Press, 2000, p. 69.

³⁸ ‘Institutions: The Learning Experience’ in K. K. Kailash, *Coalitions in a Parliamentary federal System: Parties and Governments in India (1989-1999)*, Unpublished Thesis, New Delhi: JNU, CPS/SSS, 2003, pp.168-169.

family, the profession, the Church, the school, the state create and constitute institutions which in turn shapes individuals. The new institutionalism focuses upon the “ways” in which being embedded in such collectivities alters individual preferences and possibilities. So the larger understanding of sociological institutionalism whether being old and new is to emphasize on how individual behaviour is shaped by the larger group settings.³⁹

❖ **Rational- choice approach to institutions**⁴⁰: Rational choice theory tries to explain all social phenomenons in terms of how self interested individual makes choices under the influences of their preferences. Rational choice institutionalists’ methodology is deductive approach to study the origins of the institutions. Jan Erik Lane and Svante Ersson in their work “The New Institutional Politics: Performance and Outcomes” argues about the theoretical examination of the concept of institution by contrasting rational choice and sociological choice theories and also tries to make a fundamental distinction between the rules (preferences) or interests. Douglas North argues that the institutions are important are the rule or norm that is backed by some sort of sanctions and the rules of the game of the society or humanly devised constraints that shape human interactions.⁴¹ For them, the institutions play a key role in the structuring of the collective behavior which constitutes only one part of collective behavior that is rules directing interaction.⁴² Rational choice theorists has been inclined to concentrate mainly on two type of

³⁹ Robert Goodin (ed.), *The Theory of Institutional Design*, United States of America: Cambridge University Press, 1996, p. 7.

⁴⁰ See ‘Rational Choice Theory and Institutional theory’, in B. Guy Peters, *Institutional theory in Political Science: The ‘New Institutionalism’*, London and New York: Pinter, 1999, pp. 43-62; Peter A Hall and Rosemary C R Taylor, ‘Political Science and the Three New Institutionalism’, *Political Studies*, Vol. 44, 1996, pp. 942-946; Junko Kato, ‘Institutions and Rationality in Politics- Three Varieties of Neo-Institutionalists’, *Journal of Political Science*, Vol. 26, No.4, October 1996, pp. 553-582; Barry R. Weingast, ‘Political Institutions: Rational Choice Perspectives’, in Robert E. Goodin and Hans-Dieter Klingemann (ed.), *A New Handbook of Political Science*, New York: Oxford University Press, 1996, pp. 167- 190; Kenneth A. Shepsle, ‘Rational Choice Institutionalism’, in R. A. W. Rhodes, Sarah A. Binder and Bert A. Rockman (ed.), *The Oxford Handbook of Political Institutions*, New York: Oxford University Press, 2006, pp. 23-38; S. Crawford and E. Ostrom, ‘The Grammar of Institutions’, *American Political Science Review*, Vol. 89, No.3, September 1995, pp. 582–600.

⁴¹ Douglas North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990, p. 3.

⁴² Jan Erik Lane and Svante Ersson, *The New Institutional Politics: Performance and Outcomes*, London and New York: Routledge, 2000, pp. 1-57

institutions- the public bureaucracy and legislative committees and what kind of decisions problems faced by those collective actors.⁴³ One major approach to this question is the institutions-as-equilibrium approach which has been used by Riker for their contemporary views. Works in this approach focus on the stability that can arise from mutually understood actor preferences and optimizing behavior. Scholars in this tradition treat these stable patterns of behavior as institutions. Rational theorists views institutions as equilibrium in which behavior rests on an assumption that rational individuals while interacting with other rational individuals, continue to change their decisions until no improvement can be obtained in their expected outcomes from independent action”.⁴⁴ So their main objective is to find an equilibrium. Scholars associated with this school are Kenneth Shepsle, Douglas North, E. Ostrom, and Williamson. Economists also give centre stage to the role of public institutions in promoting and sustaining long run development.⁴⁵ Initially, in the economic approaches, such as rational choice and game theory predicted that social systems consisting of only utility-maximizing rational individuals engaged in strategic interaction would stabilize in an equilibrium and institutions perform a number of economic functions in market systems that affect efficiency and equity objectives.⁴⁶ Natallia Dinello and Vladmir Popov in their work “Political Institutions and Development” explores how much political institution matters and seeks to explain exactly as to what matters if institutions are to effect development and it suggests three major lessons:- context matters, the interplay of formal and informal institutions matters and the last is improving existing institutions may produce better results than overhauling the fundamentals of political system.

⁴³ Rational Choice Theory and Institutional theory” in B. Guy Peters, *Institutional theory in Political Science: The ‘New Institutionalism’*, London and New York: Pinter, 1999, p. 60.

⁴⁴ S. Crawford and E. Ostrom, ‘A Grammar of Institutions’, *The American Political Science Review*, Vol. 89, No. 3, September 1995, p. 582.

⁴⁵ See Dani Rodrik, Arvind Subramanian, and Francesco Trebbi, ‘Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development’, *Journal of Economic Growth*, Vol. 9, June 2004, pp. 131–65. Douglass C. North, *Institutions, Institutional Change and Economic Performance*, New York: Cambridge University Press, 1990.

⁴⁶ Bo Rothstein, ‘Political Institutions: An Overview’ in Robert E. Goodin and Hans-Dieter Klingemann (ed.), *A New Handbook of Political Science*, New York: Oxford University Press, 1998, pp. 142-143.

Institutional arrangements are, thus the sets of rules governing the number of decision makers, allowable actions and strategies, authorized results, transformations internal to decision situations and linkages among decision situations. Institutional arrangements are the rules used by the individuals for determining who and what are included in decision situations, how information is structured, and what actions can be taken and in what sequence, and how individual actions will be aggregated into collective decisions. Institutional arrangements are thus complex composites of rules, all of which exist in a language shared by some community of individuals rather than as the physical parts of some external environment.⁴⁷ Hurwicz uses the term “decision mechanism” to describe institutional arrangements, conveying the image of a device constraining and guiding the choices that individuals make.⁴⁸ As John R. Commons wrote, “an institution is collective action in control, liberation and expansion of individual action”.⁴⁹

To sum up, all these perspectives significantly advance our understanding of the institutions. All the schools had borrow some or the other aspect from the earlier approach and developed their work accordingly. All these approaches suggest very different understanding of social science. Each approach presents its distinct characteristics, strength and weaknesses which make it different from the other one and proponents of the each approach take very different positions on such fundamental issues

INDIAN PERSPECTIVE

Indian scholars had also suggested ways of studying institutions. In this context, Devesh Kapur and Pratap Bhanu Mehta identified two ways by which institution can be a focus of any study. The first way of studying it is by taking institution as a dependent or explanatory variable of studying other phenomenon, which is the impact that

⁴⁷ Larry L. Kiser and Elinor Ostrom, ‘The Three Worlds of Action: A Metatheoretical Synthesis of Institutional Approaches’, in Elinor Ostrom (ed.), *Strategies of Political Inquiry*, Beverly Hills / London / New Delhi: Sage Publications, 1982, p. 179.

⁴⁸ L. Hurwicz, ‘The design of mechanisms for resource allocation’, *American Economic Review*, Vol. 63, No. 2 1973, pp. 1-30.

⁴⁹ J. R. Commons, *The Economics of Collective Action*, New York: Macmillan, 1950, p. 21

performance has on broader outcomes of interest. The second way of studying it is by treating institution as an independent variable / object of explanation. The focus here is on the ways the principal actor incentives explains certain features of the institution itself. Out of these two points of reference, they take into consideration more on the variables that have affected the performance of other institutions.⁵⁰ B L Shankar and Valerian Rodrigues in their work *The Indian Parliament: A Democracy at Work* aligns the study of the institution with the examination of the historical, political and cultural processes that existed simultaneously with it.⁵¹ It assesses the evolution of the Indian Parliament as an institution and views that Indian Parliament has been on decline or has to be superseded by alternative institutions during the crucial phases 50's, 70's and 1990's.⁵²

Thus this section tried to explain broadly the different perceptions of the term institution and the different perspectives for studying an institution and leads to our next section which will discuss the debates that have taken place in the constitutional history of India.

II

INSTITUTIONAL DEBATES IN INDIA

There had been many instances in the constitutional history of India when there been issues as to which institution has to be supreme over the other and for most of the time it was the Parliament which was considered supreme and overriding institution around which the nation revolve and build its public life. Being the principal institution of Parliamentary democracy in India, as pointed out by scholars, it has been on decline or it has to be superseded by an alternative set of institutions which Valerian Rodrigues in his recent book on 'The Indian Parliament' describes this decline thesis in terms of changing

⁵⁰ Devesh Kapur and Pratap Bhanu Mehta (ed.), *Public Institutions in India: Performance and Design*, New Delhi: Oxford University Press, 2005, p. 2.

⁵¹ B.L.Shankar, Valerian Rodrigues (ed.), *The Indian Parliament: A Democracy at Work*, New Delhi: Oxford University Press, 2011

⁵² See Ibid; Vikas Tripathi, *Decline of Legislature: An Assessment of the Working of Indian Parliament*, Unpublished Dissertation, New Delhi: JNU, CPS/SSS, 2008.

nature of representation, the changing nature of interests to be represented, the changing vision of the nation as a whole, and the transformation in the relations that it is embedded in.⁵³ Similar argument of ‘decline thesis’ is being put forward by Aggarwal and Kapur and Mehta in their work on ‘Public Institutions in India’. They argued that the Parliament being the consumer of C&AG and the decline of this institution has meant that the C&AG reports have very little effect. Indeed, as a result the quality of C&AG reports itself has declined since its key consumer – Parliament- makes so few demands of it.⁵⁴ Vikas Tripathi in his dissertation also talked about this decline thesis which is different from the generally held thesis of the decline of legislature. He talks about the three kind of paradoxes that has been prevalent in the Indian case and these paradoxes are; first, *though the Parliament has declined in its status and effectiveness, yet it become more representative*; second, *weak executive and weak parliament have been concomitant* and the third paradox, he talks about *relates to the modernization of Parliament and the attitudinal change of the MP’s*.⁵⁵

Madhav Godbole in his recent work ‘India’s Parliamentary Democracy on Trial’ again argues about that the Indian Parliament over the years has been marginalized, devalued and made dysfunctional and the downfall of this institution started during the Indira’s Gandhi regime and has continued since then. It argues about the various issues which the country has to grapple to maintain stable parliamentary democracy.⁵⁶

If one look at the contentions among the constitutional institutions of India, it has been generally seen in the politics of India that the government has always been attempted to fulfill its promises and administer the country under the constitution. Conflicts in the power relationships had to be managed and resolved among individuals and constitutional

⁵³ See ‘Introduction’ in B. L. Shankar, Valerian Rodrigues (ed.), *The Indian Parliament: A Democracy at Work*, New Delhi: Oxford University Press, 2011, p. 6; Vikas Tripathi, *Decline of Legislature: An Assessment of the Working of Indian Parliament*, Unpublished Dissertation, New Delhi: JNU, CPS/SSS, 2008.

⁵⁴ ‘Introduction’ in Devesh Kapur and Pratap Bhanu Mehta (ed.), *Public Institutions in India: Performance and Design*, New Delhi: Oxford University Press, 2005, p. 17.

⁵⁵ Vikas Tripathi, *Decline of Legislature: An Assessment of the Working of Indian Parliament*, Unpublished Dissertation, New Delhi: JNU, CPS/SSS, 2008, pp. 115-116.

⁵⁶ Madhav Godbole, *India’s Parliamentary Democracy on Trial*, New Delhi: Rupa Publications, 2011.

institutions, between the government and the Congress party and between the central and state governments. Starting from the Nehruvian phase, the most fundamental struggle in this era was between the Parliament and the Supreme Court over custody of the Constitution, the central issue being whether Parliament's power of amendment was complete and restrained. Because these substantive themes and their treatment by rival constitutional institutions would persist over decades. The next era was accompanied by Indira Gandhi's employment of the controversy in her personalization of power. The renewed battle was on the fundamental issue of separation of powers between the executive branch and Parliament on the one hand, and the Supreme Court on the other, claimed to be the final authority for constitutional interpretation. The most important conflict was seen between the executive and judiciary over the constitutionality of legislation and the Supreme Court power of Judicial Review and between the Parliament and Supreme Court over the guardianship of the constitution. The issues involved were as to which institution was supreme in interpreting the Constitution, in deciding what changes could be made to it and what could lawfully be done under it.⁵⁷

In a system of representative democracy, institutions of government and officials and agencies of government assist to serve the interests of the public. In such a constitutional system, the Parliament is the public's representative forum and it derives its ultimate legitimacy from the public on whose behalf it has been elected and acts. Parliament has the responsibility to promote the goals of openness, accountability and integrity. The government auditor or the C&AG provide a critical link between the Executive on the one hand and the Parliament and the community on the other. It alone enquires the operations of the Executive to regular, independent investigation and review, thereby providing credibility to government operations. To ensure long term sustainability of the administrative and economic institutions, we have to ensure that we should have in place, transparent and credible institutional and administrative processes.

The government machinery represents a kind of principal – agent relationship or a kind of patron- client relationship. The principals are the main shareholders viz. the public at large. The executive, acting as the agent of the principal, from time to time account to the

⁵⁷ Granville Austin, *Working a Democratic Constitution: The Indian Experience*, New York: Oxford University Press, 1999.

principal for their use and stewardship of resources and provide comfort to the extent to which the public objectives have been accomplished. The principal relies upon the audit to provide an independent and objective evaluation of the accuracy of the agent's accounting. The audit then reports on whether the agent used the resources in accordance with the wishes of the principal. It ensures parliamentary control over expenditure voted by the legislature. It also ensures the accountability of public authorities towards public monies raised and spent by them to implement policies and programmes approved by the legislatures.

For an effective and proper use of public funds or optimization of resources, especially in the context of expansion of activities of the State into social and economic sectors, there should be a Supreme Audit Institution (SAI) 'whose independence is guaranteed by law.'⁵⁸ Among public institutions, the Supreme Audit Institutions (SAIs) play a critical role, as they help promote sound financial management and thus accountable and transparent government. SAIs act as an independent watchdogs of the public interests and they put greater focus on accountability for "ethics in the public service"⁵⁹ in the scoping of their audit work. The need for an independent and objective scrutiny of the escalating volume of transactions by public bodies is (even) greater in developing countries. The resources of these countries in relation to their pressing needs are severely limited; hence, they should be used more effectively. These countries want to develop fast and catch up with the developed countries; so the public expenditure programmes have to be implemented with the utmost efficiency; hence the need for proper monitoring and evaluation.⁶⁰ Accountability and transparency, the two cardinal principles of good governance in a democratic set up, depend for their observance, to a large extent on how well the public audit function is discharged. It is for this reason that the legislatures of many countries of the world over have ensured the independence of Supreme Audit Institutions. Be it, the corporate entity in the private sector, the public sector entity or government itself, countries and institutions of the world over have been trying to ensure

⁵⁸ Preamble to the Lima Declaration of Guidelines in Auditing Precepts adopted by IX Congress of International organisation of Supreme Audit Institutions, 1977.

⁵⁹ K .S. Ramachandran, *Watching over a Watchdog: A critique of the working of CAG*, New Delhi: Ashish Publishing House, 1991, p. 17.

⁶⁰ Ibid, p.17.

transparency in their operations and in order to tackle this issue which have lost the lost the faith of public in the democratic system of governance because of its inability to control, the founding fathers of the Constitution provided for an institutional arrangement to prevent such ruining and contagious pollution of public office is the organization of the C&AG as one of the elements of checks and balance system.

To sum up, we can say that institutions plays a key role in the organization of the state and these institutions can be of any type whether it is political, social or economic, all are important in their respective fields. So institutions matter. James T Kloppenberg argues that we cannot understand politics without understanding institutions and we cannot understand institutions without understanding the ideas, the purposes of those historical persons who created them and without understanding the broader social cultural values that sustained the institutions and made it possible for them to continue.⁶¹ The approach being used for the study of Comptroller and Auditor General of India would be the historical and legal- institutional approach as to how the institution has evolved has gone through different phases in the history and also by the formal legal framework. It not only encompasses the just the written constitution that maps down the provision instilled but everything that prescribes rules for processes and organization of authority. This argument leads us to our next chapter which will be dealing with the historical genesis of the institution of the office of C&AG of India, what circumstances led to the emergence of this office, why the need for a total independence of this institution was targeted and accepted by the Constituent Assembly members with reference to the debates taken place in the Assembly during the time.

⁶¹ James T Kloppenberg, 'Institutionalism, Rational Choice and Historical Analysis', *Polity*, Vol. 28, No. 1, Autumn 1995, p. 128.

CHAPTER- II

CHAPTER II

GENESIS OF THE OFFICE OF COMPTROLLER AND AUDITOR GENERAL (C&AG) OF INDIA

“In a vibrant democracy like ours, a relationship of trust and confidence between the Legislatures and CAG is essential to maintain the integrity of the framework of financial accountability in our country.”¹

Somnath Chatterjee

In order to ensure that the money that has been allotted by the Parliament and the State Legislatures to their respective Executives for the proposed purpose have been correctly used according to the laws, rules and regulations governing the subject might sometimes creates mismanagement of the resources and at times these resources are not utilized properly and are wasted in the sense of being misuse of these in huge amounts. To check whether the money is used efficiently and effectively or not and in order to avoid this inefficiency and misuse of the funds in huge amounts, an office has been created who look into the matters of financial aspects, which audits every aspect of transactions which is ensured through the instrument of Comptroller and Auditor General whose status and independent position is guaranteed by the Constitution. C&AG's findings on the various transactions of the government are reported to the Parliament through this Audit reports and these reports forms the basis of the examination by the Public Accounts Committee.

¹ B. P. Mathur, 'Comptroller and Auditor General and Parliament Relationship', in B. P. Mathur, *Government Accountability and Public Audit: Reengineering the Comptroller and Auditor General of India*, New Delhi: Uppal Publishing House, 2007, p. 155.

As one of the pillars of the world's largest democracy, the C&AG is mandated by the Constitution of India. The C&AG of India which is a constitutional body, plays a crucial role in ensuring accountability in matters involving public money. Its foremost aim is to promote accountability, transparency and good governance through its high quality auditing and accounting and provide independent assurance to the stakeholders – the Legislature, the Executive and the Public.² But before looking into its powers, role and functions, we need to first trace the history of this office. How it originated and what were the conditions that led to the emergence of this institution and its present status will be discussed in this chapter. The chapter would be divided into three parts: first part would explain the pre- independence historical developments of the office of C&AG of India and the debates and the controversies that existed regarding the office of C&AG in the Constituent Assembly. Second section would deal with the post independence period till 1990's, various shifts in the functions and role of C&AG and it will also try to examine a kind of relationship that prevails between C&AG and Parliament. Third section will be the post liberalization era where it will look into the prospects of issue of governance that has now become a global phenomenon, is an essential component for development for the country like India where it will focus on the debates on the accountability principle and why C&AG is necessary for the welfare state? The final section would be the concluding part.

² International Training Centre of the Comptroller and Auditor General of India in International Centre for Information Systems and Audit SAI India, Information Brochure & Training Schedule for 2011-12, Available online at http://www.icisa.cag.gov.in/image/iCISA_Brochure.pdf%202011-12., last accessed on 12 January 2012.

I

PRE- INDEPENDENCE HISTORICAL DEVELOPMENTS IN THE OFFICE OF COMPTROLLER AND AUDITOR GENERAL OF INDIA

The office of the Comptroller and Auditor General had its beginning in 1858- the year the British Crown took over the reigns of governing British India from the East India Company and the role of C&AG had also evolved through the practice and tradition in British India following a major administrative reorganization carried out by Lord Canning, just prior to the mutiny of 1857. Prior to that, upto the year 1857, under the East India Company, accounts of three Presidencies of Bengal, Madras and Bombay were prepared separately. In 1857, it was decided to constitute a combined Department called General Department of Account and to appoint an Accountant General to the Government of India and the arrangements for this were effective from 1st May 1858. This led to the setting up of, for the first time, in the year 1858, a separate department named as an Accountant General to the Government of India which was responsible for the accounting and auditing of the financial transactions under the East India Company. After the mutiny, the British Crown took over the administration of India and passed the Government of Indian Act 1858.³

The Government of India Act 1858 introduced a system of an annual budget of Imperial Income and Expenditure in 1860. The budgeting system laid the foundation stone of Imperial Audit. Sir Edward Drummond took charge in November 1860 as the first Auditor General. In 1860, these posts were amalgamated to create the post of first Auditor General who had both accounting and auditing functions. When the Department was further reorganized, in 1862, the Finance Secretary became the head of Financial Department, which included the Departments of Accounts and Audit. The Auditor and Accountant General to the Government of India became the head of those Departments, charged with the duty of bringing the

³ See M.S. Ramayyar, *Indian Audit and Accounts Department*, New Delhi: Indian Institute of Public Administration, 1967, p. 10. Vinay Kumar , *The Comptroller and Auditor General of India: A Thematic History 1990-2007*, Vol.I, New Delhi: Ashish Publishing House, p.5.

accounts of the Indian empire together and responsible to the Governments of India for the correct performance of the mechanical duties of the Accounts and Audit as distinguished from administrative matters coming within the province of the Finance Secretary. On the whole, we can say that the present position of the Comptroller and Auditor General of India can be traced back to its genesis period, although it has taken a long time to grow to attain its present responsibilities, independence and constitutional status and undergone several changes in its designation from its initial phase to its present form.⁴

The state audit in its present form was introduced for the first time in Great Britain in 1866 under the missionary zeal of W E Gladstone who was the Finance Minister at that time and later became the Prime Minister, as an integral part of parliamentary control over national finance. He introduced the Exchequer and Audit Department Act which required all the departments to produce annual accounts known as Appropriation Accounts⁵ for the first time. In the very same year, the designation of Auditor General of India and Accountant General to the Government of India was changed to Comptroller General of Accounts. Thus not only the duties of the C&AG but also the title of C&AG during the period also remained controversial, it had been changed many times as to what should be the final say on the title. The Exchequer and Audit Department Act in 1884, also established the office of the Comptroller and Auditor General of India where the designation was changed from Comptroller General of Accounts to Comptroller and Auditor General of India and was “conceived as a powerful servant of the House, armed with strong powers to perform clearly enunciated functions”.

The term Comptroller and Auditor General of India was first used in 1884 and this title of the C&AG continued till the Montford Reforms of 1919. This Government of India Act, 1858 is a landmark in the history of the Audit Department in the sense that the AG came to be statutorily recognized and his independence and status increased manifolds. Under the Montford Reforms of 1919, the Auditor General became independent of the Government. The

⁴ M. S. Ramayyar, *Indian Audit and Accounts Department*, New Delhi: Indian Institute of Public Administration, 1967, p.16.

⁵ The Appropriation Audit is for the purpose of trying whether the expenditure under each head of service was within the limit as prescribed by the Appropriation Act of the Parliament.

Government of India Act 1935 also strengthened the position of the Auditor General by providing for Provincial Auditors General in a federal set-up. Till 1947, when the last British Auditor General Sir Bertie Monro Staig handed over the reins, the Department remained an integral part of British administration. Under various classifications like the Accountant General, the Auditor General and the Comptroller and Auditor General, it provided unified accounting and auditing arrangements for the whole of British India.

The Government of India Act, 1919 gave him a statutory recognition and redesignated him as Auditor General in India who was appointed by the Secretary of State in Council and held office 'during His Majesty's pleasure'. Subsequently, under Government of India Act, 1935, he was designated as Auditor General of India. The Constitution of 1950 has restored the old double title of C&AG to the coming into force of the Government of India Act 1919 while retaining the expression of "India" introduced in the Government of India Act 1935. The present title of C&AG is the result of Government of India Act 1919 which was again rechanged by the act of 1935 and again redesignated as the Auditor General.

The 1935 Act made an important change, viz. the appointment of C& AG was done by the King of England and not by the Secretary of State. Other notable features of the Act were (i) he could be removed from office 'in like manner and on the like grounds as a Judge of Federal Court', (ii) on vacating office, the Auditor General was debarred from holding any office under the Crown in India.⁶ These features were given to him to ensure his independence. His responsibilities included accounting and audit of the Government of India, and eleven Provincial Governments.

So, on 30th May 1949, 'AG' changed to C&AG. Its function which the draft constitution imposed on it was not merely audit but also control over the expenses of government. In this

⁶ M. S. Ramayyar, *Indian Audit and Accounts Department*, New Delhi: Indian Institute of Public Administration, 1967, p.16. R.K.Chandrasekharan, *The Comptroller and Auditor General of India: An analytical history*, Vol. I, New Delhi: Ashish Publishing House, 1990, p. xii.

process, programmes involving huge sums of money, programmes in critical sectors and those which have come up for public and parliamentary attention, fall within the ambit of audit plan.⁷

Regarding the Appointment of C&AG

The Government of India Act, 1935 also laid down the provisions for appointment and service conditions of the Auditor General. Duties and functions of the Auditor General of India were derived mostly from Sections 166 to 169 of Government of India Act, 1935.⁸ The accounting functions of the Auditor General of India were incorporated in this Act as follows:

*‘The accounts of the Federation shall be kept in such form as the Auditor general of India may, with the approval of the Governor General, prescribe and, in so far as the Auditor General of India may, with the like approval, give any directions with regard to the methods or principles in accordance with which any accounts of Provinces ought to be kept, it shall be the duty of every Provincial Government to cause accounts to be kept accordingly’.*⁹

The Auditor General of India was required to audit all expenditure of the Federation and all Provinces, all transactions of these Governments relating to debt, deposit, advances, suspense accounts and remittances and trading/ manufacturing, profit and loss accounts and balance sheets of any department of Government. The Auditor General of India was also required to audit the receipts of any department, if so required by the Governor General or the Governor of a Province for which Governor General or Governor of the Province might make regulations after consultation with the Auditor General of India. The Governor General was also empowered to appoint any independent officer to audit sanctions to expenditure accorded

⁷ Ibid

⁸ Government of India Act, 1935, pp. 105- 107.

⁹ Ibid, pp. 105-107.

by Auditor General of India. The Auditor General of India was required to submit a report on his audit to the Governor General/ Governors for laying down before the respective Legislatures. The Auditor General of India was also entrusted with some other miscellaneous duties. The Auditor General had a special right to compel a reference to the Secretary of State, where, in the course of his audit, 'he found that any authority in India had usurped a power retained absolutely by the Secretary of the State'. The Auditor General of India those days also acted as an advisor to the Finance Department regarding the application of financial rules and orders. He submitted his Reports in two separate volumes, Audit Report on Appropriation Accounts and Audit Report on Finance Accounts. Both these Reports were presented to Legislatures concerned. The reports were, as even today, "a detailed, dispassionate account and were devoid of any expression suggesting a political opinion or a bias".¹⁰ During the period between 1860 and 1947, 4 people had taken this office and for performing these diverse functions, the Comptroller and Auditor General of India is assisted by one of the oldest and the premier services, i.e. Indian Audit and Accounts Service whose officers are working in the various offices spread throughout the country besides two overseas offices located in London and Washington.

Debates regarding the Office of C&AG in Constituent Assembly

The need for the total independence of the Comptroller and Auditor General (C&AG) of India, in view of the significant role envisaged for him, was repeatedly emphasized by several leaders in the Constituent Assembly. India was committed to accelerating the pace of economic and social development and this made it imperative that a constitutionally independent C&AG should exist to minimize loopholes, leakages, inefficiency, and frauds in the implementation of public development programmes. The Constituent Assembly members argued that the office of Comptroller and Auditor General should be given crucial importance in our constitutional system and the importance of this high functionary in the system can never be underestimated or over stated. Leaders like, Dr. B.R. Ambedkar, Prof. K.T. Shah,

¹⁰ R. K. Chandrashekharan, *The Comptroller and Auditor General of India: an Analytical History: 1947-1989*, Vol. I, New Delhi: Ashish Publishing House, 1990, p. 11.

Dr. Rajendra Prasad, T. T. Krishnamachari, had tried to give importance to and placed this office as the most important office than those of the judiciary in the Constitutional system. Among all the members in the Constituent Assembly, Dr. B R Ambedkar, in particular in his address to the then President of India, Dr. Rajendra Prasad, was of the opinion that the dignitary or officer (C&AG) is probably the most important officer of the Constitution of the India.¹¹ He is the one man who is going to see that that the expenses voted by Parliament are not exceeded, or varied from what has been laid down by Parliament in what is called an 'appropriation act'. The Auditor-General should be placed above the influence of anybody, but Parliament should not be deprived of its right to consider the question of his and his office's salaries and allowances. If this functionary is to carry out his duties, then his duties should be given more importance than the duties even of the judiciary appointment of officers and servants of the Supreme Court and he should have been certainly as independent as the Judiciary. While comparing the articles about the Supreme Court and the articles relating to the Auditor-General, he said that we have not giving him the same independence which we have given to the Judiciary, rather he felt that the Comptroller and Auditor General ought to have far greater independence than the Judiciary itself.¹² For them, this office of C&AG possesses high dignity, values and credentials and should be treated differently from the other institutions. Mostly people in the Constituent Assembly agreed on giving an independent status to this office and were in favor of placing this institution highly important in the course of the their discussion and were barely in oppose to it.

Even R K Sidhva also in his address had given an important place to the Auditor General. He said that the post of the Auditor-General is so very important that Comptroller and Auditor General should be given the first place so far as the financial provisions of this Constitution are concerned. The Auditor-General should be always independent of either the legislature of

¹¹ Ramaswamy R. Iyer, 'CVC Case: relevance for the post of CAG', *The Hindu*, 19th March 2011, p. 10.

¹² CAD, Vol VIII, 30th May, 1949, p. 8-9.

the executive as he is the watch-dog of financial matters and his position must be made so strong and tough that he cannot be influenced by anyone, howsoever great by may be.¹³

People like T T Krishnamachari also in his address argued that the Auditor General should be placed above the influence of anybody. It is worthwhile to quote T.T. Krishnamachari in this context, 'actually the man who is an Auditor General is not an Accountant per se. He has a number of other duties to perform and in so functioning, he has got to have knowledge of the entire administration' and placed that the present method of appointment of Auditors General in India' will perhaps be the best method of appointing the Comptroller and Auditor General of India.¹⁴

They also laid down the criteria as to who will be appointed for the office of C&AG. K. T. Shah was of the opinion that the Auditor-General shall be appointed from among persons qualified as Register Accountants or holding any other equivalent qualifications recognised as such, and having not less than ten years' practice as such Auditors. The members of the Civil Service have a particular type of education, and develop a particular outlook which does not necessarily have specific reference to the duties and functions of an Auditor-General. In order to look into the matters that the duties of the Auditor-General has been carried out with efficiency and completeness which is necessary for the proper audit of the accounts, it is important to lay down the qualifications which will provide for practical experience and technical knowledge in the person appointed as Auditor-General.¹⁵ The system of Government accounting is on the basis of actual cash receipts and disbursements closing on a giving date but in view of the large commercial undertakings that the State is beginning to be committed to and in view also of the variety of dealings that the State has to enter with businessmen, contractors and so on and it is important that the audit of accounts should be by

¹³ Ibid, p.8. B. Shiva Rao, *The Framing of Indian Constitution: Selected Documents*, Vol.IV, New Delhi: Indian Institute of Public Administration, 1968.

¹⁴ See Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History 1990-2007*, Vol.1, New Delhi: APH Publishing House, 2008, p. 10; CAD, Vol.VIII, May 30, 1949, p. 11-12, B. Shiva Rao, *The Framing of Indian Constitution: Selected Documents*, Vol.IV, New Delhi: Indian Institute of Public Administration, 1968.

¹⁵ Ibid

those who are familiar with the business practices and as such are able to give efficient service.¹⁶ The members of the Constituent Assembly also placed an important status to the public audit and thus referred to the office of Public Audit as an important link in enforcing accountability of the executive.¹⁷

Therefore, it is necessary for the maintenance of the integrity of the Government of India and high moral principles of the integrity of the Government of India in public expenditure that the Auditor-General should be placed in the status wherein we have placed the members of the Union Public Service Commission and also the Chief Justice of the Supreme Court of India.

The 1st section of the chapter has dealt with the evolution and emergence of the office of C&AG and various debates that came up in pursuance of that. In continuation to the last section, this part would look into the developments in the post independence period that has taken place in the office of C&AG and also explains the major shifts in the different phases. This would be followed by their present status. The section will also into the position of Indian C&AG's with that countries like UK from which they adopted the Institution, with also countries like US, Australia, etc in very brief.

II

POST INDEPENDENCE DEVELOPMENTS

The history of the office of the Comptroller and Auditor General is inevitably linked with the political, administrative and socio- economic developments of the country. Since independence, the country has witnessed transformation in every facet of life. The provisions

¹⁶ Ibid, p. 14.

¹⁷ B. P. Mathur, 'Public Audit and Financial Control', *Indian Journal of Public Administration*, Vol. 43, No.3, 1997, pp. 464-472.

for single unified audit for both the Union and the States as also of the other bodies and authorities, have increased the jurisdiction of the Comptroller and Auditor General and with the growth of different public enterprises, the amount of work that it has to perform has also increased manifold, thus has given totally a fresh dimension and scope to the working of the Comptroller and Auditor General¹⁸ and there was always constant urge of separating the accounts from audit ever since the Constitution came into force, mainly on the basis that in Britain, the C&AG was responsible only for audit. A few efforts were also made at separation in the 1950's but none was much successful.

In India, where we have adopted the Westminster model of parliamentary democracy, C&AG position should be somewhat related to that of UK and should therefore be legitimately considered as part of the legislative wing of the government. Somehow there has been a considerable doubt concerning the office of Comptroller and Auditor General. The C&AG created under the Constitution was a free, independent and neutral authority- neither the purely executive type of the predecessor institution nor the legislative type prevalent in some of the western countries, when the relevant articles in the Constitution were framed. Account and audit were included in the Union List. The C&AG was the common supreme audit authority for both the Union and State governments, one of the unitary features of the federal polity and was assigned with both accounting and auditing functions of the Union and State governments. In practice, the institution of C&AG functions as a devolutionized authority, that is there has also been provision of audit of local bodies by the C&AG in respective spheres of the Government.¹⁹ The Comptroller and Auditor General is thus, as head of the Indian Audit and Accounts department, neither a part of legislature nor the executive but an officer created by the Constitution to see that diverse authorities act in regard to all matters in accordance with the Constitution and the laws and rules framed there under.²⁰

¹⁸ Ibid, p. xi.

¹⁹ Ibid, p. xxii.

²⁰ B P Mathur, *Government Accountability and Public Audit: Re-engineering the Comptroller and Auditor General of India*, New Delhi: Uppal Publishing House, 2007, p.158.

It also established the position of Exchequer and Audit Department Act of 1866²¹ to provide the supportive staff from within the civil service. The C&AG was given two main functions: (a) to authorize the issue of public money from Bank of England in 1866, having satisfied that this was within the limits Parliament had voted, and (b) to audit the accounts of all government departments and report the same to the Parliament.²²

In order to deepen democracy and Parliament possessing the necessary expertise to make the Executive accountable, the Supreme Audit Institutions (SAIs) all over the world are being increasingly recognized as a legislative branch agency and the relationship that Indian C&AG enjoys with the Indian Parliament raises an important question- is C&AG a legislative branch agency belonging to one of the three tier of the power realm which constitute the government, the others two being executive and judiciary, or does the C&AG belong to a fourth power which is not classifiable amongst the three power domains. The C&AG's mandate was increased for conducting economy, efficiency and effectiveness audit. While the C&AG has complete discretion to conduct audit, in determining whether to carry on an examination, 'he shall take into account any proposals made by the Committee of Public Accounts'. The results of C&AG's reports are also reinvestigated by the parliamentary committee called the Committee on Public Accounts, thus establishing a circle of Parliamentary control over national finance. The arrangements solved a dilemma which has puzzled the Parliament for years, 'whether expenditure should be controlled by inexpert parliamentarians or expert non-parliamentarians'.²³ In the UK, the Audit Act was amended in 1983 to strengthen parliamentary control over public money and the C&AG made an Officer of the House of Commons. Successive Auditor General had shaped the institution more or less on the patterns of the Comptroller and Auditor General of United Kingdom and the principles, rules, systems,

²¹ The 1866 Act established a cycle of accountability for public funds: The House of Commons authorizes expenditure, The Comptroller and Auditor General controls the issue of funds, Accounts are produced by departments and audited by the Comptroller and Auditor General and The results of the C&AG's investigations are considered by a dedicated parliamentary committee, the Committee of Public Accounts (PAC), established in 1861 by Gladstone.

²² Ibid

²³ Ibid. pp.5-6.

procedures adopted by them for performing the assigned functions were based on the British model.²⁴

Position of Indian C&AG in comparison with other countries

Compared to the other SAI's elsewhere, the C&AG of India, as envisaged in the Indian Constitution, was an officer of the Indian Constitution – neither of the legislature nor of the executive. The C&AG is de facto an officer of Parliament. He was appointed by the President, on the advice of the Prime Minister, and was required to take an oath while entering office to uphold the Constitution, but can only be removed from the office of Parliament, like Supreme Court Judge.²⁵ The C&AG of India, being C&AG to the centre and to the states (a unique feature of Indian federalism), is not (and cannot be) an officer of Parliament. The State Audit was based on the patterns of its counterpart in UK but the Comptroller and Auditor General of India was vested with accounting and auditing functions of both federal and state governments. By its very nature, the state audit in India does not belong necessarily either to the Legislature or the Executive, but is an independent and a neutral authority that serves the Legislature and Executive of the governments in a variety of ways and the public at large to provide fair and equitable means to ensure accountability.²⁶

In the US, the General Accounting Office (GAO) is a part of the legislative branch, and in the UK the C&AG is an officer of the House of Commons. The position of the C&AG in enforcing the government's accountability should be understood in the light of developments in the international arena. During the 1990s, all the advanced Commonwealth countries, such as New Zealand and Australia, have amended their Audit Acts and incorporated made a provision similar to that of the UK, and made the C&AG an officer of the Parliament. The US' Government Accountability Office, since its inception, has been recognized as a

²⁴ R. K. Chandrashekharan, *The Comptroller and Auditor General of India: an Analytical History: 1947-1989*, Vol.I, New Delhi: Ashish Publishing House, 1990, p. 1.

²⁵ Ibid, p. 52.

²⁶ Ibid

legislative branch agency and enjoys a special working relationship with the American Congress, with 80 per cent of its reports deriving as a result of Congressional requests. In continental countries such as France, Germany, Italy, Austria, Belgium there is a system of Audit Courts which, while performing functions of expenditure control on behalf of Parliament, enjoy wide powers and act like judicial bodies. The French Cour des Comptes is assisted by the Prosecutor General responsible for providing legal advice, and has the power to recover improperly extended public funds or cash deficits from accounting officer.²⁷

The C&AG is our Supreme Audit Institution (SAI), i.e., the supreme institution for enforcing the financial accountability of the Central and State governments, other public authorities, institutions receiving substantial funds from the government, and so on. Wherever public funds are involved, the C&AG have an important role to play. India has a unique distinction where the Constitution provides a common and unified audit authority and a federal structure with power divided between the Union Government and the various State Governments and Union Territories. The Constitution therefore enshrines the independence of the Comptroller and Auditor General (C&AG) as he is envisioned as the Supreme Audit Institution (SAI) and he discharges his obligations through the Indian Audit & Accounts Department. The Comptroller and Auditor General of India is common to the Central and the State governments.

The position assigned to him as a Supreme Audit Authority is common to both the Union and the States which could be regarded as a basic structure of the Constitution of India. It is desirable to have a clear Constitutional or legal provision to avoid any actions or proceedings against the Comptroller and Auditor General of India.²⁸ The SAI of India audits both Central and State Government and also maintains the accounts of the State Governments and in many states, regulation and authorization of entitlements such as the provident fund and the various retirement benefits in the form of pension to the State Government employees.

²⁷ B. P. Mathur, 'Belittling CAG diminishes Parliament Effectiveness', *Mainstream*, Vol. L, No. 6, January 28 2012.

²⁸ *Ibid*, p. xv.

The office of the Comptroller and Auditor General of India is created by the Constitution itself and contains several provisions to safeguard his independence. As envisaged in the Constitution, the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act was passed by Parliament in 1971 which further strengthened his independence. "Thus the office of C&AG of India is an office having constitutional and hence perpetual existence like other Constitutional organs of the State, i.e. the Supreme Court and the High Courts and the Election Commission.²⁹ C&AG's main job is to see that the budget passed by the Parliament is efficiently executed by the Executive. Unlike Executive and Judiciary, C&AG enjoys no inherent and enforcement powers of its own. It is only the backing and support that it receives from the Parliament and its Financial Committees which is his main strength. Due to this reason, most of the Indian C&AG has not kept a close working relationship with the Parliament and the Public Accounts Committee. Most C&AG's in the past have not even attended the meetings of the PAC on a regular basis and have left the task with the deputies.³⁰

The range of functions performed by the Indian C&AG is unique in the world. Under the Constitution, he was originally responsible for keeping the accounts of the Central Governments except Defence and Railways) and the accounts of all the state governments. He also has to do the audit of the Central and state governments and most of the Central and state government undertakings. It was only in 1976 that he got some relief when the Central Government started keeping its own accounts. The only country in the world where responsibility for audit and accounts is concentrated in one office like this for the whole country is Pakistan. But the number of state governments and the total volume of transactions to be audited are much smaller there than in India. India has the largest audit and accounts organization in the whole world. In the countries like United States, Canada and Australia,

²⁹ Y Krishan, *Audit in India's Democracy*, New Delhi: Clarion Books, 1990, pp. 163-164.

³⁰ B P Mathur, *Government Accountability and Public Audit: Re-engineering the Comptroller and Auditor General of India*, New Delhi: Uppal Publishing House, 2007, p. 159.

each state has its own separate audit organisation, independent of the federal Auditor General.³¹

In India, the Comptroller and Auditor General conducts audit of expenditure incurred by the President of India, governors of State, Lok Sabha/ Rajya Sabha, the Supreme Court/ High Court, the UPSC and other constitutional independent functionaries. However, there is no external audit for the C&AG's expenditure. So it is necessary that the office of Comptroller and Auditor General is reviewed by an external agency to demonstrate its own professional competence and efficiency in holding Government on behalf of the Parliament.³² The working of the office of the C&AG was reviewed for the first time after independence by Commission to Review the Working of the Constitution and in order to fulfill the principle of accountability; the commission recommends a system of external audit of C&AG's organization that is to be adopted both at the Union level and the State level.³³

The Comptroller and Auditor General set up an Audit Advisory Board in March 1999. It has fourteen eminent members from the fields such as academicians, engineers, retired civil servants, doctors, professionals, various defense experts and other persons of repute apart from the C&AG's top management team in order to avoid such discrepancies in the auditing. The C&AG is necessary for the welfare state as it looks into the matters of monetary aspects of each state and checks that the money that has been provided for any scheme or matter is utilized properly. Thus maintains a relation of trustee with the central government.

However, his duties and powers are laid down by a parliamentary enactment (the C&AG's Act of 1971) in pursuance of the relevant constitutional provisions. Organizationally, the C&AG discharges his constitutional responsibilities through an important central class I

³¹ K. S. Ramachandran, *Watching over a Watchdog: A critique of the working of CAG*, New Delhi: Ashish Publishing House, 1991, p. 44.

³² B. P. Mathur, *Government Accountability and Public Audit: Re-engineering the Comptroller and Auditor General of India*, New Delhi: Uppal Publishing House, 2007, p. 152.

³³ Government of India, *The Report of the Commission to Review the Working of the Constitution*, Vol 1, (2002), 171.

service (Indian Audit and Accounts Service, IAAS) as also a large nationwide Indian Audit department of a strength of around 60,000 persons. The C&AG has an important constitutional responsibility and this responsibility can be fulfilled better if the staff looks beyond obvious administrative omissions and into major policy lapses and there have been many instances where the audit report finds fault with the central and state governments using not proper utilization of funds. Mr. T. N. Chaturvedi, former C&AG of India, on the Constitutional role of the C&AG, emphasized that his staff sought to be judicious and objective and serve as an aid to management by 'identifying system deficiencies and individual regularities'.

The scope of Comptroller and Auditor General has also been widened by adding a new dimension to its work due to the 73rd Constitutional Amendment which introduced a third stratum of government at the district level and below, that means the C&AG has also need to audit the local bodies but these features only remain in the form of documents. There is a wide hiatus between role of C&AG in auditing the local bodies in theory and practice. There has been constant demand coming from the citizens and ministers from time to time that the Indian Comptroller and Auditor General should be placed under the purview of external audit that can checks the functioning and every monetary things used by the C&AG which sometimes means that the Parliament has no control over what the Comptroller and Auditor General does and is free from any kind of audit of his office. In other countries, the Audit organizations are subject to peer review to ensure quality.

Audit of Public Corporations

The C&AG is the sole auditor in case of statutory corporations like Air India, International Airport Authority, ONGC, Electricity Boards and State Road Transport Corporations. However, there are certain corporations like Food Corporation and Warehousing Corporation where audit arrangements is analogous to the Government companies where C&AG's and Chartered Accountants can audits both. In certain public corporations, particularly in the field of banking, there is no provision for C&AG's audit though they are fully owned by the government. Thus, nationalized banks, LIC, IFCI, UTI, IDBI, etc. are not subject to CAG's

audit jurisdiction.³⁴ Thus, the scope and functions of C&AG has increased and have been curtailed also in the specific areas which was majorly done after the 1971 DPC Act.

III

Post Liberalisation era

In the recent times, the term accountability has become a buzzword both at the national as well as on an international level and there is confusion as to what the term accountability exactly meant. Accountability is one of the cornerstones of good governance. The notion of accountability is a vague concept that is difficult to define in precise terms. However, broadly speaking, “accountability exists when there is a relationship where an individual or a body, and the performance of tasks or functions by that individual or body, are subject to another’s oversight, direction or request that they provide information or justification for their actions.”³⁵

Accountability may be identified as the obligation of subordinates to account to their superiors for the performance of particular duties and to accept control and direction from their superiors in the performance of such duties. In this sense, it is an aspect of responsibility relationships, where one person is responsible to another for certain functions. In such relationships, accountability covers the obligation to account for performance and to accept oversight and direction. There are various kinds and forms of accountability, like organisational accountability, legal accountability, hierarchical accountability, professional accountability, individual and collective accountability, administrative accountability. The form on which the C&AG uses is the administrative accountability. These are kind of quasi-

³⁴ K. S. Ramachandran, *Watching over a Watchdog: A critique of the working of CAG*, New Delhi: Ashish Publishing House, 1991, p. 61.

³⁵ Rick Stapenhurst and Mitchell O’ Brien, ‘Accountability in Governance’, *World Bank Governance Papers: Working paper*, 2005, Last accessed on January 26, 2012.

legal forums, that exercise independent and external administrative and financial oversight and control. The administrative forums vary from office to office to independent supervisory authorities, inspector generals, anti-fraud offices and chartered accountants. The mandates of this office have been broadened to secure not only the probity and legality of public spending, but also its efficiency and effectiveness. These administrative forums exercise regular financial and administrative control, often on the basis of specific statutes and prescribed norms.

In India, these institutions comprise of financial oversight bodies like the Comptroller and Auditor General, investigative agencies like Central Vigilance Commission. These secondary autonomous institutions of accountability are typically designed to be independent of the executive; in the case of supreme audit institutions and the design of institutions provide the opportunity to hold policy makers accountable. For example, in the Indian case, the institutions that enforce legal accountability include not only agencies of law enforcement like the police, or the judiciary like the courts, but also the investigative arms internal to bureaucracies and governments. In any given socio- economic set up, the logic of accountability cannot be ignored or underestimated. It relates to the measuring of the performance of the well accepted norms and standards. Hence the principle and question of accountability has been receiving greater attention during the recent years. The principle of accountability has been questioned. In essence, this principle connotes that the political institutions in India like the office of Comptroller and Auditor General has the obligation to reveal, explain and justify its policies and actions to the Legislature. Executive accountability to the Legislature is a cornerstone of our democracy. It is also an essential component of good governance. The C&AG of India is the instrument of fiscal accountability provided for in the Constitution. His primary role is to report to the legislature whether the activities of the Government in all financial matters are carried out in accordance with the Constitution and the laws and rules framed there under both in letter and in spirit. He also provides assurance that the sums authorized by the Legislature in the budget have been spent for the intended purposes and within the sanctioned limits. The members of the Indian Audit and Accounts Department have the task of assisting of Comptroller and Auditor General to effectively carry

its Constitutional mandate.³⁶ It is clearly seen that the country has not put to effective use the wide powers and great independence its Comptroller and Auditor General enjoys, to improve accountability in the country. The audit is being used as an effective and a powerful instrument in the process of strengthening public accountability. On the contrary, an analysis of the audit reports shows that public accountability in India has been sharply on the decline during the last 3 – 4 decades. The profile of government audit is getting lower and lower as the time had passed and this is purely visible by the recent scams that had been taken place in the country.

V.K. Shunglu who was the Comptroller and Auditor General of India during 1996-2002 argues that the concept of audit is central to the concept of accountability although audit in itself is not a comprehensive means for securing accountability since there are several diverse players in the accountability structure and admits that “audit cannot by itself ensure good governance. That responsibility is of Executive; Audit does not supplant it; it can and does aid and supplement the efforts of Government to provide good Governance”.³⁷ The importance of audit evaluation of policy implementation and determining resource use efficiency lies in the fact that it is independent and is a comprehensive assurance on the overall performance of the Government.³⁸ In India, the position of Comptroller and Auditor General with that UK from whom they have taken the model of Indian Audit and Accounts Services, the C&AG is independent in the sense that he is not the member of the Parliament and no minister in the Houses of Parliament represents the Comptroller and Auditor General of India and no minister can be called upon to take any responsibility for any actions or conducts done or omitted to be done by him.³⁹

³⁶ Speech by the Speaker of the Lok Sabha, Meira Kumar on the Inauguration of 25th Conference of Accountants General.

³⁷ V. K. Shunglu, ‘Concept of Accountability and the Role of Supreme Audit Institutions,’ *Indian Journal of Public Audit & Accountability*, 2006, pp. 6-17.

³⁸ *Ibid*, p. 12.

³⁹ S L Shakhder, Comptroller and Auditor General of India and the U.K.: A Comparison, *Indian Journal of Public Administration*, Vol. IV, No. 4, October- November, 1958, p. 394.

There has been considerable shift in the auditing practices in India since the independence. Before India became independent, the government audit was mostly confined to check against provision of funds, rules and orders and competence of authority, that is to say, that the traditional form of audit was merely restricted to its 'regularity' nature, i.e. checking the regularity of the action taken or checking the expenditure item by item and this audit was the vital part of state audit in pre days. Now the character of audit has been changed drastically. With the launching of the Five year plans for economic and social development there has been simultaneously change in the pattern of government expenditure necessitating shift in the emphasis, concept and practice of audit, thus leading Audit Department to enter into an area of Performance Evaluation and '*Value for Money Audit*' which is for 3 E's- economy, efficiency and effectiveness. Audit Department is now producing a number of performance reviews every year covering almost every facet of government's working. This type of Audit examines:

1. "The economy of administrative activities in accordance with the sound administrative principles and practices, as well as management policies;
2. The efficiency of utilization of human, financial, and other resources, including examination of information systems, performance measures and monitoring arrangements , and procedures followed by audited entities for remedying identified deficiencies; and
3. The effectiveness of performance in relation to the achievement of the objectives of the audited entity and audit of the actual impact of activities compared with the intended impact."⁴⁰ and these three values: economy, efficiency and effectivity are referred to as performance aspects.

The performance of these three E's can be best assessed by the process of performance auditing which is considered as an important building block in improving accountability and responsive governance of public resources. Performance auditing involves the examination of public organization by an independent auditor. The scope of Audit was confined to known

⁴⁰ Colleen G.Waring and Stephen L.Morgan, 'Public Sector Performance Auditing in Developing Countries', in Anwar Shah (ed) *Performance accountability and combating corruption*, Washington D.C.: The World Bank, 2007, p. 324.

areas of regularity, compliance, accountancy, appropriation and propriety audit. The design of audit was a harmonious blend of central audit of accounts and vouchers received in each Accountant General's Office coupled with the local audit and inspection of the offices in the field and the technique adopted. Over the period, all the major areas of expenditure that were incurred by the Executive Departments were covered.

The governance issue is not something new. It was always there in the discussions but the nature and scope of governance has changed quite a lot from the yester years. Early discussions on governance go back to atleast 400 B.C. to the Arthashastra, a famous treatise on Governance was written by Kautilya who was thought to be the chief minister to the King of India. In it, Kautilya presented the key pillars of the "art of governance" by emphasizing on the principles like justice, ethics and anti-autocratic tendencies. He further detailed the duty of the king to protect the wealth of the State and its subjects; to enhance, maintain and also safeguard such wealth, as well as the interests of the subjects.⁴¹ In India, in the post liberalization period, the issue of governance also came into the limelight of the institutions to brought in the capacity for building an egalitarian society and in India, 'governance' has taken variety of forms not merely restricted itself only to the formal legalized political structures of the government rather it had taken its domain also the administrative agenda in it scope. The word 'governance' was first used by the World Bank in the one of their documents in the year 1989 which entered into the vocabulary of public administration since the 1990's. In the year 1992, the bank document on Governance and Development said that Good governance is central to creating a sustaining an environment which fosters strong and equitable development and it is an essential compliment to sound economic policies".⁴²(ref) To talk about the Good governance is to means to ensure transparency and accountability of various stakeholders; like the Legislature, the Executive and the public and this principle plays an important component for the development of a nation like India which is not being used

⁴¹ O. P.Dwivedi and R.B.Jain,' Bureaucratic Morality in India', *International Political Science Review*, Vol.9, No.3, July 1988, p. 208.

⁴² Deepali Singh, 'Reforms in Governance: in the era of globalization', *Indian Journal of Public Administration*, Vol. LVII, No. 2, April- June 2011, pp. 337.

effectively and efficiently in the country since the last two decades. The post 90's India has seen that the funds are not utilized properly and there are various instances to prove it also. The Tenth Five Year Plan (2002-2007) of the government also has a fully fledged chapter on Governance and Implementation. It states that governance issue is one of the most crucial factors for the development of India. In this chapter, 'the notion of governance is not only confined to just administrative sphere rather covers all political, economic and social aspects of the life that had an impact on the lives of human beings'. The Comptroller and Auditor General is the highest audit authority of the country and its mandate covers not just the technical reviews of the receipts and expenditure accounts but also more generally, the propriety of the expenditure incurred and revenue collected. In the more recent years, the emphasis has been shifted from that of verifying the technicalities of the accounts to the broader review of propriety and the furtherance of public interest through the collection of public expenditure/ revenue. However, basically the C&AG is not an anti-corruption agency nor it is an economic law enforcement agency rather it is agency created to verify on behalf of the legislature to the expenditure/ revenue collected by the executive is in accordance with the letter and spirit of the appropriation made by the legislature.

To briefly summarize, the C&AG of India being an independent constitutional authority, is neither a part of legislature nor executive though appointed by the President on the advice of the Prime Minister, he can be removed from office like Supreme Court Judge on a motion of impeachment. The C&AG have both audit as well as accounting authority for Centre as well as states. The parliamentary support is absolutely necessary for the effectiveness of the audit and this effectiveness can be maintained only when the Indian Parliament and the Audit department should make the office of Comptroller and Auditor General modern, dynamic and a vibrant institution and formally recognise C&AG as part of its legislative wing and give the institution full back and support so that they help in establishing an accountable and discharge its responsibility of holding the government accountable for the benefit of the people of this country and to bring socio- economic transformation in the society. The C&AG and his organisation would work to assist the Parliament to enforce accountability of the Executive government. How much support it is backed by the Parliament and faith in this office could be seen by the fact that how much Parliament and different committees mainly PAC & COPU

pays attention to the annual reports of C&AG. The focus will be most on the relationship between PAC and C&AG and whether Parliament take these reports seriously or not while discussing on the floor of the house and their effect on the Parliamentary financial decision making will be discussed in the next chapter.

CHAPTER- III

CHAPTER III

STRUCTURE, NATURE AND FUNCTIONS OF C&AG

Comptroller and Auditor General of India as an institution that has been mandated by the Constitution of India which is also known as Supreme Audit Institution in the international arena as the auditor of the nation.¹ It is an agency that has been created to verify on the behalf of the legislature that the expenditure or revenue incurred collected by the executive is in accordance with the letter and spirit of the demand made by the legislature. It is an investigating agency which looks into matters of any misuse and misappropriation of funds and is an instrument of ensuring accountability of the executive to the legislature.

These days, ‘accountability of Auditor General himself raises much deeper issues than someone coming and checking whether due consideration has been given to financial and administrative procedures laid down. Even as the scope and content of audit is widening and deepening to grapple with the issues of accountability of the audited institutions for the resources placed at their disposal, people have the right to be assured that the resources allotted are spent with a sense of proportion, a sense of purpose and that the responsibilities are not discharged only in a formal manner.’²

Before going into the CAG’s reports, the first thing is to look at the structural aspects of this office which we are dealing in the Section I of the study. This section is further sub divided into three parts. It will give the description of the office of C&AG, selection procedure for the appointment of C&AG, what C& AG does and what he does not covers in its ambit. The first sub part will deals with the organizational structure of this office which will includes the location of this office meant where are its headquarters and other branches located. The second sub part will explain the procedures used for an appointment of C&AG and the third sub part will focus on the functions of C&AG. What he does and what he does not. In continuance with the first section of the study, the section II will discuss the changes that have occurred in the office over the period of time and these

¹Performance Audit report for the year 2009- 2010, Available online at [http://saiindia.gov.in/english/home/about us/Performance Activity/Performance rep Activity10.html](http://saiindia.gov.in/english/home/about%20us/Performance%20Activity/Performance%20rep%20Activity10.html), Last accessed on May 24, 2012, pp.1-70.

² K. S. Ramachandran (ed.), *Watching over a watchdog: A critique of the Working of CAG*, New Delhi: Ashish Publishing House, p.27.

changes will be in the context of its working and functioning. Has liberalization played an impact on its functioning, if yes, then in what matters? The section III will explain what is generally covered in the C&AG Report where it will discuss different kinds of audit and also try to explicate the role of C&AG during the coalition period, i.e. from 1989 onwards in the various cases of irregularities by looking at the C&AG's Performance Activity Report and answer why we have chosen these reports not others which C&AG also do an audit of like Financial Audit Report, Compliance Audit Report which we have discussed in detail in the second chapter. It will explain the relationship between C&AG and PAC through the Performance activity reports from 2001 onwards and also strive to find through these reports whether audit has any kind of impact on the government decision making process.

SECTION I

STRUCTURAL FEATURES OF THE OFFICE OF C&AG

i. ORGANISATIONAL STRUCTURE OF C&AG

The C&AG of India is the head and discharges his duties through the Indian Audit and Accounts Department. The office of the C&AG directs, controls and monitors the activities of the various offices of the department and is responsible for the development of the organizational objectives and policies. There has been expansion of its main offices, branches and other resident audit offices which are meant for training. As the head of IA&AD, the C&AG is assisted by around 50000 employees and these employees are selected through various examinations conducted by the Indian Government from time to time. These employees are working in more than 116 branches, 141 field offices that are spread across India and at some locations abroad also that is in Washington, London, Rome and Geneva, 435 resident audit offices has been spread across all states which audits 64000 units across the country is gearing towards more thematic audits from mere compliance or financial audits³ and 11 regional training institutes located in some parts of

³ Moinak Mitra, 'The CAG Report', *The Economic Times*, May 13, 2011, p.1

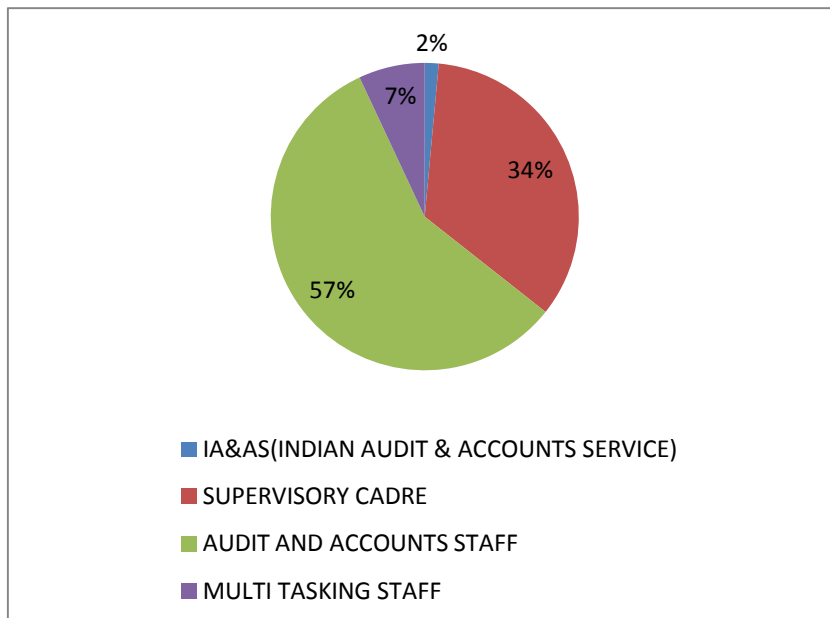
the country. Over the years, it has increased.⁴ The people in IA&AD can be broadly classified into these 4 categories for which the table is given below:

Table 1.1
Categorization of people in IA&AD in Numbers for the year 2009-10

CATEGORY	MEMBERS
IA&AS(INDIAN AUDIT & ACCOUNTS SERVICE)	652
SUPERVISORY CADRE	15316
AUDIT AND ACCOUNTS STAFF	25717
MULTI TASKING STAFF	3125
TOTAL	44810

SOURCE: Performance Activity Report, 2009-2010, p. 36.

Figure: 2.1
Categorization of people in IA&AD in percentage



SOURCE: Performance Activity Report, 2009-2010, p. 36.

⁴ Government of India: Performance Activity Report, 2009-2010, p. 36.

This table and figure shows the division of total number of staff in all 4 categories in numbers and in percentages. Indian Audit & Accounts Service consists of the top, senior and middle management levels of IA&AD and is manned by officers from this service. They constitute Group A services in Government of India. Supervisory Cadres are the gazette officers that consist of Senior Audit/Accounts officers, Audit/ Account officers and Assistant Audit/ Account Officers. They come in the Group B services and form the operational managers in SAI hierarchy. Audit and Account Staff constitutes the clerical cadres, auditors/accountants and senior auditor/ senior accountants from this cadre. Last in this category are the multi tasking staff carries the various supports functions in all IA&AD offices.

This office has been categorized into four types: first are the Audit offices- for the audit of Union accounts, second are the Audit offices for the audit of state accounts, third is the State accounts and the entitlement offices and the fourth is the training institutes. The Audit office for the audit of Union accounts consists of Civil, Defence, Railways, Post &Telegraphs, Commercial and Overseas. Resident audit offices includes Divisional audit offices, workshop audit offices, divisional audit offices, stores audit offices, traffic audit offices, etc. for railway audit offices and sub- branch offices for defence audit and resident audit parties for the commercial audit offices. In addition, the States PAsG /AsG conducts audit of units of civil departments of the Union government located in the respective states. And finally during this period, political decisions like creation of the 3 new states also had an impact on the C&AG's organization. New IA&AD offices have come into existence with the creations of 3 new states and the specially constituted Union Territory of 'NCT of Delhi' with its own Legislature and Consolidated Fund. Growth and expansion in the Government Departments, notably in the Railways with the creation of more Zonal offices has also contributed to this.

ii. Selection Procedure for appointing the C&AG

In relation to the appointment of C&G, there is no fixed, prescribed criteria for the selection of the appointment of the C&AG. It has been seen that the post of Comptroller and Auditor General of India is being filled by the officers belonging to the Indian Administrative Service (IAS) cadre who do not have the same expertise which C&AG's requires. Even the framers of the Constitution were also of the opinion that the person who has sufficient knowledge of finance and accounting systems and had practical experience

of the work of the finance department and had worked as an Accountant General should only be appointed. However, in practice this assurance has not been followed by the successive governments. The first three C&AG's- V. Narahari Rao (1948 -54), A.K. Chanda (1954-60) and A.K. Roy (1960-66) were from the Indian Audit and Accounts Service, the fourth C&AG S. Ranganathan (1966-72) was from the Indian Civil Service, and the fifth C&AG A. Bakshi (1972-78) again was from Indian Audit and Accounts Service and remaining all after him were from Indian Administrative Service. So some people are of the view that this affects the working of the Audit department or else when they are appointed as the C&AG, they should be given proper training of the things that are done in the auditing department; they should know the basics of accountancy.⁵

Early in the case of appointment of C&AG's, officers of the Indian Civil Service with a knowledge of financial and accounting work were transferred to the Audit Department at the level of deputy accountant general and the present practice of appointing retiring IAS secretaries unfamiliar with audit and accounts.⁶ This procedure has not been changed over the period of the time, has become a convention. The appointments being made are entirely internal to the government machinery; no one outside has any knowledge of what criteria are applied, so there is not any fixed criterion for appointing the C&AG. There is a need for an open, objective and credible selection process.⁷ Other departments that deals with accounts like Defence Accounts, Railways Accounts, the Departmental head is invariably drawn from within their own ranks.

iii. FUNCTIONS OF C&AG

In this part of section we will discuss the diverse functions performed by C&AG and what remains outside its jurisdiction.

The C&AG perform various aspects of government expenditure which includes: first, the audit against provision of funds which is done to find out if the money shown as disbursed

⁵ Era Sezhiyan, 'Appointment of CAG', *Mainstream*, December 8, 2007.

⁶ K P Joseph, 'Selecting the Next CAG', *Economic and Political Weekly*, Vol.30, No.21, May 27, 1995, pp. 1222-1223.

⁷ See Ramaswamy R. Iyer, 'CAG of India: Restoring a Diminishing Institution', *Economic and Political Weekly*, Vol. 40, No. 53, December 31, 2005- January 5 2006, pp.5533-5536; Ramaswamy R. Iyer, 'CVC Case: relevance for the post of CAG', *The Hindu*, March 17, 2011.

was legally appropriated for the purpose for which they were allocated by the legislature and whether adequate control was exercised by spending authorities; second, it audit of sanction of expenditure to ensure that every expenditure incurred was with the approval of the competent authority; third, it does audit in relation to rules and order to verify that the expenditure incurred were covered under the rules and orders; fourth, it does propriety audit which bring to light not only the cases of irregularities, but also such matters which in its judgment appears to involve improper expenditure or waste of public money. Such audit extends beyond the formality of expenditure to its faithfulness and economy; fifth, it does efficiency-cum-performance audit which is also called as *Value for Money Audit* to see that the government programmes have achieved the desired objective at an optimal cost and resulted in yielding intended benefits. It includes evaluation of economy, efficiency and effectiveness of expenditure; sixth, it carries on audit of receipts, stocks and stores, certification of audit, audit of central and centrally sponsored schemes, audit of public enterprises and government companies, audit of autonomous bodies and authorities and performance appraisals by audit boards;’⁸ seventh, although India being politically a federal structural country, the Indian C&AG in theory is constitutionally responsible for the audit of not only the central government but all the state governments also because in India, there is no as such provision for separate Auditor General for the states which while drafting the Constitution of India, the Constituent Assembly members recommended for a separate Auditor General for every state. The original draft prepared by the drafting committee, headed by Dr. B. R. Ambedkar and submitted to the President of the Assembly on 21st May 1948⁹ and keeper of state government accounts also.

⁸ D Bandyapadhyay, ‘Policing Public Expenditure: New Tasks and Possibilities’, *Economic and Political Weekly*, Vol. 35, No. 51, December 16-22, 2000, pp. 4482-4483.

⁹ Auditor- in-Chief for the States,, “Article 210(1) The Legislature of the State for the time being specified in the First Schedule may by law provide for the appointment of an Auditor-in- Chief for the State and when such provision has been made an Auditor-in-Chief for that State may be appointed by the Governor in his discretion and the Auditor-in-Chief so appointed shall only be removed from office in the manner and like grounds as a judge of the High Court of the State.” The draft Constitution had a provision for control of Auditor General of India over State Auditor General. Article 210(6) read as follows: “Nothing in this article shall derogate from the power of the Auditor General of India to give directions in respect of the accounts of the States for the time being specified in Part I of the first schedule as are mentioned in article 126 of this Constitution.” The drafting committee had made the aforesaid provision on the basis of Government of India Act of 1935 which had envisaged separate Auditor General for the Provinces. The provision of draft Constitution got amended at the stage when draft articles came for the approval of the Constituent Assembly on the basis of recommendation of an Expert Committee which suggested doing away with provision of Provincial Auditor General.

So these were the above diverse functions of the C&AG. Further moving to what he does not do; the C&AG does not have the necessary expertise to audit the accounts of scientific and technical departments such as the department of science and technology, Atomic energy, Space Applications, etc. or review the economic policies of the governments. The DPC Act, 1971 also led only a few changes regarding the role of C&AG. In the case of public enterprises, the C&AG is the sole auditor which refers that there is no provision for audit by chartered accountants in case of statutory corporations like Air India, Indian Airlines, International Airport Authority, Oil and Natural Gas Commission, Electricity Boards and State Road Transport Corporations, only C&AG audits. However, there are certain corporations like Food Corporation and Warehousing Corporation where audit arrangement is analogous to Government companies- there is a provision of audit both by CA's as well as C&AG's. During the 1970's of Desai era, there was a constant demand coming to accelerate the scope of public corporations were on the agenda, we see that in the field of auditing the accounts of Public Corporations in the Banking and financial sector, most of the corporations like Industrial Development Bank of India, Industrial Finance Corporation of India, Life Insurance Corporation of India, Union Trust of India, etc have been kept outside the jurisdiction of the C&AG. This was done because it was felt that these corporations would not be able to function effectively as their counterparts in the private sector if they were subjected to government audit.¹⁰ So during the 1950's, the C&AG prevailed upon the government to have their annual accounts and balance sheets audited by the C&AG on a supplementary basis which is still prevalent which means first these annual accounts are audited by Chartered Accountants who are also known as statutory auditor, after they are test checked by the C&AG team whereby a small audit team conducts a test check of selected transactions in a short span of three to four weeks to be able to independently verify the annual accounts. Thus it is a healthy combination of both CA's and C&AG's audit that helps in adequately discharging the audit responsibility of a government company.¹¹ Subsequently, in the 1970's an Audit Board was set up to provide commercial auditing to these corporations¹² and during economic policies of the

¹⁰ Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History, 1990-2007*, Vol.I. New Delhi: Ashish Publishing House, 2008.

¹¹ K. S. Ramachandran (ed.), *Watching over a watchdog: A critique of the Working of CAG*, New Delhi: Ashish Publishing House, pp. 62-63

¹² This was done upon the recommendations of the ARC set up under the Chairmanship of Shri Morarji Desai in 1966. The recommendations were implemented during the Janata party regime when he became the Prime Minister of India.

government and the liberalization era has impacted the functioning of C&AG a lot. One is the case of these above corporations. The government is increasingly withdrawing from these corporations by selling away a large portion of shares and the managers of these corporations does not want to bring these corporations within the jurisdiction of the C&AG.¹³ The reason of government increasingly withdrawing from these corporations was that the government shareholding in the corporations was less than 50 percent.

SECTION II

CHANGING NATURE OF THE OFFICE OF C&AG

The liberalization period has impacted the functioning of CAG to large extent but that possess a very important role. It was the period when the concept of “good governance” was first and foremost used by World Bank which was that time and still being a global phenomenon. It is central to creating a sustaining an environment which fosters strong and equitable development and it is an essential compliment to sound economic policies To talk about the Good governance is to means to ensure transparency and accountability of various stakeholders; like the Legislature, the Executive and the public and this principle plays an important component for the development of a nation like India which is not being used effectively and efficiently in the country since the last two decades. The post 90’s India has seen that the funds are not utilized properly and there are various instances to prove it also.

This period also witnessed an Indian Audit & Accounts Department with vastly reduced portfolio of entitlement functions, since a considerable portion of these functions has already been transferred to State governments. However, State accounts that remained with C&AG even after the separation of Central accounts in 1976, were a focus of attention in the 1990’s both by C&AG Somiah who toured many A& E¹⁴ offices and there

¹³ See Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History, 1990-2007*, Vol.I. New Delhi: Ashish Publishing House, 2008; K. S. Ramachandran (ed.), *Watching over a watchdog: A critique of the Working of CAG*, New Delhi: Ashish Publishing House, p. 61.

¹⁴ A & E are the Accounts and Entitlement functions. These are the separation of accounting and auditing functions into two separate independent offices which ensures that the office which compiles the accounts does not audit them too. The Accounts wing is responsible for the maintenance of accounts of the State

was a switch over to accrual accounts to cash based accounting system. The emergence of IT as the potent weapon for audit of computer systems, which were gradually replacing manual systems in most of the public sector and Government organizations and it is still continuing these days.¹⁵

It was also the period for SAI India's entry into international auditing scene for the first time with its election as member of the United Nation Board of Auditors in 1992 and also marked SAI India making tremendous mark in international forums like INTOSAI and ASOSAI. INTOSAI is an umbrella organization for government audit offices referred to as Supreme Audit Institutions across the world. It was done as to align the audit practices in SAI's India to international best practices prevailing in the most advanced countries. IA&AD is now trying to become at par with the most developed SAI's as far as auditing standards are concerned.¹⁶ International standards issues by INTOSAI are applicable to C&AG of India. The current C&AG of India is the new chairman of the Associations of Supreme Audit Institutions (ASOSAI), the largest regional organizations of 45 nation's strong Asian organizations of the Institutions of the Auditor General. This 45 member ASOSAI was established in 1979.

The functions of C&AG also increased as the audits in new areas came up as a result of the major liberalization reform that was ushered in 1991. Similarly, in the Audit Department, a wave of globalization started. The IA&AD started its attempts to amalgamate with the best global auditing standards and practices. These new areas of audit were audit of privatization, audit of regulation and objectively analyzing the macro level financial management system of the government. Performance audit was more stressed by completely building its structure and methodology and defining the tools more clearly and objectively. Emphasis on system analysis and in the commercial audit, the Audit Board Mechanism for appraisal of Government companies and corporations was totally redesigned.¹⁷

governments, maintenance of General Provident Fund (GPF) accounts and authorization of pension payment of State Government employee.

¹⁵ Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History, 1990-2007*, Vol.I. New Delhi: Ashish Publishing House, 2008, p. 1-5

¹⁶ Ibid

¹⁷ Ibid, p.1-5

This was also an era of coming up of several new institutions. An autonomous institution under the aegis of C&AG was set up in 1996 called 'Institute of Public Auditors of India' (IPAI) as a 'think tank'¹⁸ in audit, accounting and accountability matters, other institutions like International Centre for Information Systems and Audit (ICISA, Noida), Government Accounting Standards Advisory Board¹⁹ (GASAB), National Academy of Audit and Accounts (NAAS, Shimla). The C&AG set up an Audit Advisory Board in 1999 which has 14 outside eminent members from all fields like academicians, retired civil servants, doctors, professionals, defence experts and other persons of repute apart from the C&AG's top management team.²⁰

Though CAG is mandated to look into the audits of both the Centre and states, its scope has now widened. Since the Audit Act of 1971 does not take into consideration the audit of local bodies²¹, new dimension has also been added to C&AG's work due to the 73rd and 74th Amendments which introduced a third stratum of governance at the district level and below.²²

¹⁸ Think tank is the organization which conducts research and engages in areas such as social policy, political strategy, economics, military, technology issues and as well as in the cultural fields. These think tanks are mostly non-profit organizations.

¹⁹ GASAB is Government Accounting Standards Advisory Board. It was set up in August 2002 with the support of Government of India with a view to establish and improve standards of government accounting and financial reporting including enhancing accountability mechanism. It is a body of professionals drawn from various central accounts services, government of India, State governments, professional bodies like ICAI (Institute of Chartered Accountant of India), NCAER (National Council of Applied Economic Research), RBI (Reserve Bank of India). Ibid, p.4

²⁰ Ibid, p. 1-5

²¹ Ibid, p. 2.

²² D Bandyopadhyay, 'Policing Public Expenditure: New Tasks and Possibilities', *Economic and Political Weekly*, Vol.35, No. 51, 16-22 December, 2000, pp.4483.

SECTION III

Never ask of money spent,
Where the spender thinks it went,
Nobody was ever meant,
To remember or invent,
What he did with every percent.

Robert Frost, *The Hardship of Accounting*²³

Auditing in India is one aspect which actually investigates and looks into the matter of government spending whether there has been any misuse and misappropriation of funds and looks into reasons for that. The impact of audit has always remains a burning issue for the country like India. The audit inquiry has been primarily based on the cash transactions. Audit and legislature oversight are crucial links in the chain of public financial management and accountability and this system cannot work effectively without a strong audit and legislative oversight function. The Public Accounts Committee acts as the crucial agent among the “Three Men in the Boat”- the Legislator, the Executive and the Auditor.²⁴ The audit examines as to how far the implementing agency is successful in discharging its responsibilities with respect to the schemes undertaken by it and ascertains whether the schemes are being executed effectively and efficiently. In fact, the institution of audit plays a crucial role in the functioning of the PAC and C&AG is often termed as the “*friend, philosopher and guide*” of the committee.

“Audit assists the legislature in the exercise of the financial control over the executive government and it is the executive government and not the audit who is responsible for the

²³ Y Krishnan, *Audit in India's Democracy*, New Delhi: Clarion Books, 2000, p.24.

²⁴ Vinod Sahgal, ‘Audit and Legislative Oversight: Developing Country Perspective’, in a workshop organized by the *United Nations Department of Economic and Social Affairs (UNDESA)* in partnership with the Board of Audit and Inspection (BAI), Republic of Korea, 6th Global Forum on Reinventing Government, May 22 2005, Available online at website <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan020690>., Last accessed on April 21, 2012, p. 22.

enforcement of economy and efficiency in the expenditure of the public money and it is however the duty and responsibility of the audit to bring in light the wastefulness, fraud, failures, system weakness, deficiencies and circumstances leading to the infructuous expenditure.”²⁵ The emphasis here is to look beyond only the compliance audit with financial rules and the books of accounts to the questions of Value for Money. Compliance audit- compliance audit is the review of financial records to determine whether the entity is complying with the specific rules and procedures.²⁶

In India, there are generally two kinds of audit that takes place and all them in the three different fields and are categorically sub-divided further. These are namely sector wise audit and government wise audit. Government wise audit is further divided into three categories; amongst them again Union audit is further sub-divided into 3 categories. Sector wise: Sector wise do the audit of cash transactions of all sectors like agriculture, commerce and industries, finance, defence, education, transport, and are many more also which came under the jurisdiction of sector wise audit. Government wise- union audit, state audit, local bodies. Within it, union audit is further divided into 3 kinds of audits and these are compliance audit, financial audit (regularity audit) and performance audit. Some people used to club regularity and compliance audit in one category. The efficiency-cum-performance audit which is focus of our study has been for the past few decades, has been done by the Audit Department. In 1980, the office of Auditor General issued a ‘Brochure on Duties and Powers of the C&AG of India.’ In this, it was explained that besides regularity audit, the Indian Audit Department should also examines the propriety of executive action and looks beyond formality of the expenditure and brings into notice of the Legislature, the cases of waste, loss and irregularities.

Regularity (compliance) or transaction audits are carried out with a view to verifying that expenditure confirms with the relevant provisions of the Constitution, laws, rules, regulations and other instructions pertaining to the entities being audited and the impact of audit is the aggregate value of its findings in all local audit inspection reports issued

²⁵ Government Auditing in *Government Auditing Standards*, 1st issue 1994, Revised version 2001, p.4.

²⁶ See Rick Stapenhurst and Jack Titsworth, ‘Parliament and Supreme Audit Institutions’ in Rick Stapenhurst (ed.), *The role of Parliament in Curbing Corruption*, Washington D.C: World Bank Institute, 2006, p. 101- 109. Kenneth Dye and Rick Stapenhurst, ‘Pillars of Integrity: Importance of Supreme Audit Institutions in Curbing Corruption’, Washington D.C: World Bank Institute, 1998, Available online at <http://www1.worldbank.org/publicsector/pe/JanSeminar/Course%20Readings/09.%20External%20Accountability/Pillars%20of%20Integrity.pdf>, last accessed on May 29, 2011.

during the year and the value of the findings included in the Audit Reports of the C&AG to the Parliament/ State legislatures. It examines the transactions relating to the expenditure, receipts, assets and liabilities of the government and also includes the orders and instructions for their legality, adequacy, transparency, propriety, prudence and effectiveness. Financial audit primarily concerned with the examination and evaluation of financial records and expression of audit opinion on financial statement. Performance audit is an independent assessment or examination of the extent to which an organization, programme or scheme operates economically, efficiently and effectively. Performance Audit is carried out which takes into account the money spent and the actual results and outcomes to evaluate the effectiveness of the implementation of the policy. The audit reports of the C&AG are examined by the committees of the Legislature and submit their report to them. The audit conducted by the C&AG is based on the documents produced by the Government under the purview of the audit. The effectivity and efficacy of the audit depends upon the genuineness of the documents being produced under the scheme of the audit.

During the auditing of any item, most of the time what usually happened in the Indian scenario, the results are placed as far more important than procedures, norms etc. According to the Indian Auditing Standards book which is also called Yellow Book and also the guidelines of International Auditing Standards of INTOSAI to be followed while auditing any transactions. But it has seen that at times this is also misused for indulging in the audit reports of Comptroller and Auditor General and in these Department Related Standing Committees also plays a significant role in privatizing spending.

The C&AG in his office remains the follower of the knowledge of the auditing standards who wants to provide for the effective management of the resources of the inputs made by the government in its aspects for conducting an audit for pursuing the goals of the resources in particular. The office of C&AG has always remained a pillar of strength for Indian Democracy in the face of the increased pressure from the political leadership since the days the office has come into effect. The office which earlier remained above politics and above controversy, now- a- days, a opposite kind of institution has engrained and this can be simply judged by the fact of the several instances that have proved that this office has always remained in controversies since the last three decades. Audit offices are

properly described as the institutions of accountability because their primary function is to call public officials to account.²⁷

CONTENTS OF AN AUDIT REPORTS

All audit reports of the C&AG are prepared under Article 151 of the Indian Constitution have to be laid in the Parliament/ Legislative Assembly. The Audit Reviews on schemes/ programmes, which is now called Performance Audit Reports, open with an overview, which is a kind of Executive Summary of the Report.²⁸ Generally, a C&AG report consists of sections like highlights, Vision and Mission, first area of focus; second, duties and powers of the C&AG of India which includes audit report and the guiding principles of audit and accounting; third, is the process of public accountability which includes the types of audit, volume of work in audit, certification of accounts, responsiveness of government and the examination of the audit reports by PAC and COPU; fourth, is the Impact of audit includes changes in policy, law, rules and other significant changes at the instance of Audit; fifth, is the significant audit findings included in the audit reports which includes the audit of Union government, state government and the audit of the local bodies; sixth is about the organizational set up , budget of Indian Audit and Accounts department the cost of audit, conferences and seminars, human resource management, training and lastly publications and manuals; sixth is the C&AG's role and position in the International Relations; seventh is about the accounting and entitlement functions and lastly is the annexes which includes the office of the IA&AD Department, Lists of Audit Reports tabled in the Parliament/ State Legislatures, Action taken reports awaited from Union ministries and state governments.

Bofors was the first case of irregularity and misappropriation which was exposed by the C&AG office and the PAC. There were also instances where the errors of substantial amounts in the accounts of certain government undertakings duly audited by the company auditors were pointed out by C&AG's auditors in consequence of which the accounts had to be revised:

²⁷ R Mulgan, 'Accountability: an ever expanding concept', *Public Administration*, Vol. 78, No. 3, 2000, pp. 555-73.

²⁸ Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History 1990-2007*, Vol.1, New Delhi: Ashish Publishing House, 2008, p. 175.

Table: 1.2

**TABLE SHOWING CORRECTIONS MADE BY C&AG AFTER BEING
AUDITED BY COMPANY AUDITORS:**

Year of Accounts	Name of the Company	Profit and Loss shown before revision	Correction made
1975-1976	Coal India(Ltd.)	Loss Rs. 37.36 crores	Loss Rs. 76.50 lacs.
1978-79	Mining and Allied Corporation	Loss Rs. 9.94 crores	Loss Rs. 48 lacs.
1978-79	State Trading corporation	Profit Rs. 43.04 crores	Loss Rs. 66 lacs.
1978-79	National Mineral Developmental Corporation	Loss Rs. 2.9 crores	Loss Rs. 63 lacs.

Source: Y Krishnan, Audit in India Democracy, New Delhi: Clarion Books, 2000, p.131

This table shows that the audit done by the Company and the Company auditors failed to disclose the prerequisites and other monetary benefits received by the managerial personnel even though such non- disclosures involved the violation of the Companies Act. These lapses were brought out by the C&AG's auditors. But these irregularities cannot be complete without taking into purview the very first case of irregularity of Independent India, i.e. Mundhra case of the 50's and also the Bofors case of 80's that have shaken the Indian economy to its roots. While explaining about the relationship between C&AG and PAC, it will look into the C&AG activity reports of various years from 2000 onwards till date which includes all kinds of audit in its purview. It will give the large picture of the Audit Reports selective paras and reviews which PAC takes into consideration and the impact of Audit on the Government decision making process.

The Coalition era witnessed the major transformation in the political scenario of Indian democracy. It marked the emergence of various irregularities that had major political consequences in the well being of the country. This was not the first time when these kinds of instances had shaken the Indian economy. It was the first financial case of irregularity of free India which had involved the Calcutta based Industrialist Haridas Mundhra for buying shares worth Rs 1.24 crore in six companies owned by him. This case was the first biggest financial irregularities of its time which involved money in crores at that time. After this case, also other cases of irregularities also emerged in the picture which we are not going into the details of it. The period which we are taking of our study is the so called liberalization era. Without going into details for choosing this era, the various cases of irregularities that had shook the country in its entirety were Bofors scam which still even after two decades have not faded its shine. Radio being made a part of international plot against India.

The period in the beginning of 1990's had shown the wastefulness and fraud of the public money in a huge amount. The Bofors scandal that came into limelight in the year 1987 when both the Swiss government and the Indian government had played a transitory role in curbing corruption and to culminate the fraudity of the money of the public in large amounts. The scandal not only envisaged the ineffectivity on the part of the government to not only punish the guilty people but also efficient enough in judging the secular mode of the government in order to promote transparency and accountability in the government and to provide effective and efficient socio- economic rights to the citizens. "The gun system that has offered to the Indian government by the four firms concluded that the Sofma whose country of origin was France has met almost all the parameters laid down, it substantiated all its claims during the trials in India and the minimum modifications have to be suggested to it. As to the Bofors, it had met only the essential parameters laid down except that it had lesser range and high silhouette"²⁹ and in this scam there were many audit objections found by the C&AG like he found deficiencies in the procedures adopted by the Ministry for technical evaluation of the gun systems and the ammunition, the report which was to be submitted had not been approved by the government till January 1989. So

²⁹ Report of the C&AG of India, for the year ended 31.03.1988, No.2 of 1989, Union Government- Defence Services (Army and Ordnance Territories), GOI Report, p. 11.

the C&AG of India had played a very crucial role in this scam as the involvement of the C&AG into this area has denigrated the institution of Chief of the Army Staff as well.³⁰

The next case of irregularity which we will take is the Bihar Fodder case of 1996 during the tenure of V.K. Shunglu as the C&AG of India. In this case, the government accounts showed that during the years 1991-92 to 1995-96 when most of the fraud took place in Bihar as Rs. 957 crores. In Bihar, this irregularity was detected mainly on the basis of treasury inspection reports prepared by the accountant general.³¹ The fraud in the Animal Husbandry department remained undetected for many years because of the failure of the Bihar government and the C&AG to notice that there were large excesses over budget allotments as Bihar was spending some years double from the states like Uttar Pradesh and Maharashtra was spending on Animal Husbandry. In this case, officers of the small department in Bihar had succeeded in stealing nearly Rs. 1000 crores through gross and repeated violation of basic financial control which is largely borrowed from the British, audit and accounts are in disorder and the constitutional arrangements for the legislative control over the government finances were completely broken down. In this case, the C&AG and his audit department was failed to bring into the attention of the government and the Legislature the excess of expenditure in the animal husbandry department over the budget allotment. Generally the treasury of every state has to be inspected every year but this is the irony of Bihar Accountant General that it was not inspected every year and the annual report has to be sent to the government for their corrective action of the treasuries. If one look at the Finance accounts of Bihar in 1995-96 which was certified by the Indian C&AG as correct contains numerous serious errors which will again increase the scope for fraud. The main emphasis of the audit and oversight has so far been to look into the matters related to the moneys spent for the intended purposes as recorded in the books of accounts. The other cases of misappropriation of funds and irregularities that had taken place during his tenure were Hawala case, SNC Lavalin case, UTI case of 2001.

The last C&AG which we will take for the study is Vinod Rai, the current C&AG of India. During his tenure, the CWG and the 2G spectrum into forefront and these were the major

³⁰ Ibid, pp. 9- 21; K.S. Ramachandran, *Watching over a watchdog: A Critique of the Working of CAG*, New Delhi: Ashish Publishing House, 1991, pp.106-115.

³¹ See K. P. Joseph, 'Growing Fraud in Government', *Economic and Political Weekly*, Vol. 36, No.7, Feb 17 - 23 2001, p. 536; K. P. Joseph, 'Lessons from Bihar Fodder Scam'. *Economic and Political Weekly*, Vol. 32, No. 28, July 12- 18, 1997, p. 1686.

cases of misappropriation of funds in the history of India. In CWG case, two audits have taken place, first was the pre commonwealth audit that was carried out by the core team of the office of C&AG during the period from March 2009 to May 2009, fifteen month before the Commonwealth Games have to be started. There were many reasons also as to what the need arise to conduct this pre Commonwealth audit. It were delay in the preparedness of the projects, irregularities in the award of contracts, delay in the construction of the stadium, games village and related infrastructure lagging behind schedule, procurement of equipments of inferior quality or purchase of routine items at exorbitantly high prices. In the preparedness of the events involved a dozen of different agencies besides the local bodies like DDA, NDMC and MCD. It was under these circumstances that C&AG decided to conduct an independent study to check the irregularities and the delaying in the construction of venues and associated infrastructure lagging behind schedule and to assess the progress of the projects and the preparedness of the different agencies for organizing the games and to identify the significant risks that needed to be addressed. This study was not called as an audit in a conventional sense; it was conducted only to provide an aid to the administration as benchmarks for monitoring the progress of different works and undertaking mid- course corrections. The report highlighted that no further delay can be entertained in the course of the games and given the confirm deadline of October 2010 for holding the games. The report also suggested that “in view of the complexity and multiplicity of the activities and organizations and progress till date, there is a need to rethink the governance model for the games project as well as for similar events that have to be take place in the future”

So in keeping all these facts in mind, C&AG of India decided to conduct a post completion of Commonwealth games audit in the shortest possible time so that the Parliament and the people could have the independent and objective assessment of the outcomes that has been stemmed from the expenditure acquired. Although it was a huge exercise and will take several months to complete it as it includes in its gamut multiplicity of agencies and the projects were manifold. A dedicated team of auditors were selected and were put together to conduct a comprehensive audit of all the agencies, aspects and projects leading to the conduct of the games. The audit was comprehensive in nature including both compliance and performance related issues across ministries and Department of GOI, GNCTD, Government of Maharashtra and the OC and various other bodies with regard to their role and activities in respect of the games projects. The post

audit report contained the results of the audit, covering the period from May 2003 when the initial bid for hosting the games to December 2010 when most of the Games related projects and activities were completed. So all the norms and rules were followed by the auditing team before starting of the audit. They prepared an audit methodology to how to go about the works. Here we need to also look at the relationship between the C&AG and PAC.

RELATIONSHIP BETWEEN C&AG & PAC

Public Accounts Committee (PAC) is traditionally and still being considered as the most important financial committee of Parliament in the financial accountability process and administrative accountability to the legislature through committees has been the hallmark of our political system. The PAC enjoys place of pride in our committee system.³² It examines the budgetary appropriations and accounts of the government and Audit Reports submitted by the C&AG to the Parliament on the execution of the projects and programmes by the ministries. By convention, the recommendations of the PAC are considered as the recommendation of the entire House. The Parliament also considers the Action Taken Report on the recommendations of PAC which are not discussed on the floor of the House. The Public Accounts Committee (PAC) is an instrument for the Parliament for enforcing accountability of the Executive and bringing financial discipline and probity in the working of the government; therefore, the extent of the effectiveness of the audit largely depends on the interest and support that it receives from the PAC. During the last fifty years of Indian democracy or we can say since the inception of the Constitution, the Public Accounts Committee has tried to bring some degree of discipline and momentum in the working of the Executive but its working and functioning has shown serious deficiencies in the monetary aspects. For our study we will be focusing on various years Performance Audit reports.³³ According to Riccardo Pelizzo and others, a

³² Parliament of India, 'Committee on Public Accounts (Lok Sabha)', Accessed on July 13, 2012, Available Online at <http://www.164.100.24.208/Is/committees/committee-information.aspx>.

³³ 'The statutory audit which the Audit Department conducts is limited in scope and serves a limited purpose. It certifies that the accounts are arithmetically correct and within the appropriations made and also certifies about the legality and formality of the expenditure. But under modern conditions with the rapid increase in the functions of the State this limited purpose is not enough. Parliament is more interested to know that the money has been wisely spent with due regard to economy, that the accepted plans and programmes are being efficiently executed and their purposes achieved. This broader aspect of discretionary audit is being gradually evolved and in modern context has assumed considerable importance...' and he went on further: "This leads to another aspect of our duties, which is in reality a facet of the discretionary

successful performance of PAC depends on these 3 set of factors, namely; the formal powers of the committees, the partisan composition of the committee membership, and the practices and procedures of the committees themselves.³⁴

POWERS AND FUNCTIONS OF PAC

‘The functions of the Committee, as enshrined in Rule 308 (1) of the Rules of Procedure and Conduct of Business in Lok Sabha, include examination of accounts showing the appropriation of sums granted by Parliament for the expenditure of the Government of India, the annual finance accounts of the Government and such other accounts laid before the House as the Committee may think fit. In scrutinising, the Appropriation Accounts of the Government of India and the Report of the C&AG of India, thereon, the Committee has to satisfy:

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

It shall also be the duty of the Committee-

- a) to examine the statements of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, concerns and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading or manufacturing scheme or concern or project and the report of C&AG thereon.
- b) To examine the statements of accounts showing the income and expenditure of autonomous and semi autonomous bodies, the audit of which may be conducted by the C&AG of India either under the directions of the President or by the statute of Parliament;

audit that we now conduct. This is Performance audit. With the change in the pattern of governmental expenditure, it is necessary that expenditure on different schemes should be examined in Audit to ascertain whether (i) such schemes are being executed and their operations conducted economically, and (ii) they are producing the results expected of them.’ A speech delivered by C&AG A.K. Roy in Shimla on October 28th 1961 to All India Association of Class- II officers of the IA&AD.

³⁴ Riccardo Pelizzo et al. (ed.), ‘What makes Public Accounts Committee works? A comparative analysis’. *Politics & Policy*, Vol.34, No. 4, 2006, p.777.

c) To consider the report of the C&AG in cases where the President may have required him to conduct an audit of any receipts or to examine the accounts of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendations as it may deem fit.’³⁵

Till 1981, there was no provision for the PAC to do the follow up on Action taken by the Government on Audit paragraphs but at their sitting held on 8.8.2000, the Committee decided that the remedial/correction Action Taken Notes received from Government are sent to Office of C&AG for categorization like (a) Accepted (b) Partially accepted and (c) not accepted and then circulated these to the Members of the Committee. Based on the categorization, the Committee may select Audit Paragraphs for detailed examination.³⁶

Somnath Chatterjee while addressing a seminar on ‘Legislative and Audit Interface’ has put forth the problem,

*“Proper functioning of the process of parliamentary control over public exchequer is directly linked to the capacity of the CAG to provide high quality, timely reports to the Parliament and State Legislatures and the capacity of the Public Accounts Committee and the Committee of Public Undertakings to examine them and issue their recommendations effectively and speedily. The effectiveness of the Legislative committees is not dependent only on the speed and extent of the examination of the CAG’s report but also on the Executive’s response and commitment to act upon the recommendations made in the Reports of Legislative Committees with speed and without hindrance”.*³⁷

³⁵ Parliament of India, ‘Committee on Public Accounts (Lok Sabha)’, Accessed on July 13, 2012, Available online at <http://www.164.100.24.208/Is/committees/committee-information.aspx.html>.

³⁶ Ibid

³⁷. Somnath Chatterjee, Speech delivered at the seminar on, ‘Legislature and Audit Interface for Enforcing and Strengthening Accountability Mechanism’, organized by the office of C&AG, July 22, 2005, Available online at http://www.ipaiindia.org/files/First_Issue_-_April_2006.pdf, last accessed on May 24, 2012, pp. 1-6.

The Commission to Review the Working of the Constitution³⁸ has observed,

At the national and State levels, the Public Accounts Committee are the keystone of the arch of Parliamentary control of public finances. If the PACs do not function well, financial discipline and accountability will suffer. At present, only a miniscule fraction of the reports submitted to these committees are considered and reported on. It is imperative to evolve a system whereby PAC's consider all reports submitted to them and report to the Parliament within a time limit of 12 to 18 months.

The Public Accounts Committee (PAC) is concerned with determining that the moneys granted by the Parliament have been spent by the government in accordance within the scope and nature of the demand and the effectiveness of the PAC depend on whether the government accepts its recommendations and further implements them. However it has been that some changes in the policy have been effected as a result of PAC's recommendations. At the beginning of its term in every year, it makes a selection of Audit paragraphs included in the various reports of C&AG for examination and discussion. After inquiry of the paragraphs that has been chosen for the further study, the committee submits its report to the House on the selected paragraphs. Since the Committee became a Parliamentary Committee under the control of the Speaker from January, 1950, **it has presented 1453 Reports till April 2012**. The details of the Reports presented Lok Sabha wise as follows:

³⁸ *Report of the National Commission to Review the Working of the Constitution*, Vol. I, New Delhi: Government of India, March 2002, para 5.13, p.165.

Table 1.3

Number of Reports being presented by PAC since 1st lok Sabha onwards

<u>LOK SABHA</u>	<u>TENURE</u>	<u>REPORTS PRESENTED</u>
1 st Lok Sabha	1952-57	025
2 nd Lok Sabha	1957-62	043
3 rd Lok Sabha	1962-67	072
4 th Lok Sabha	1967-70	125
5 th Lok Sabha	1971-77	239
6 th Lok Sabha	1977-79	149
7 th Lok Sabha	1980-84	231
8 th Lok Sabha	1984-89	187
9 th Lok Sabha	1989-91	022
10 th Lok Sabha	1991-96	119
11 th Lok Sabha	1996-97	024
12 th Lok Sabha	1998-99	011
13 th Lok Sabha	1999-04	063
14 th Lok Sabha	2004-09	084
15th Lok Sabha	2009- continuing	59

Source: Parliament of India, 'Committee on Public Accounts (Lok Sabha)'

A study done by G C Malhotra³⁹ for the 25 year period from 1980 to 2004 (7th to 13th Lok Sabha) shows that about 60 percent of the recommendations were accepted, i.e. out of total of 6548 recommendations during the period, only 4016 were accepted for further discussions. So over the years, one can say that the Committee's influence has been declining greatly due to its inability to examine the bulk of the material contained in the Audit Reports. Before Independence and three decades after that also, PAC used to examine all the paras which appeared in the Audit Reports. However, from 1970's onwards, PAC adopted a strategy of selecting very few paragraphs due to the large number of paras in the Audit Reports but still it somehow manage to examine about half of the paras and reviews which appeared in the Audit Reports. A study done by R K Chandrashekhar⁴⁰ for the years 1947- 48 to 1987- 88 discovered that about 40 percent of paras were examined by the PAC (out of 13457 paras, 5409 were examined) and around

³⁹ G C Malhotra, 'Public Accounts Committee', in B.P. Mathur (ed) *Public Audit, Good Governance and Accountability*, New Delhi: IPAI/ Mudrit, 2000, pp. 50-78. G C Malhotra, *Parliamentary Surveillance-Impact of Public Accounts Committee in the 13th Lok Sabha*, Unpublished Paper, pp. 64-79.

⁴⁰ R K Chandrashekharan, *The Comptroller and Auditor General of India: An analytical history*, Vol. IV, New Delhi: Ashish Publishing House, 1990, 1867-1870.

50 percent of PAC's recommendations were accepted by the government (out of 16592 recommendations, 8071 were accepted). This is not the current picture of what PAC now shows. However, during the last few years, the PAC is able to examine a tiny proportion of paras which appear in the Audit Reports. Every year the Audit Reports contains 700 to 1000 paragraphs, while PAC is able to examine only 10 to 15 paras. For example, during 2003-04, out of 2233 paras and reviews which had featured in Audit Reports, PAC selected only 47, but could discuss only 12 paras in the 19 sittings it held.⁴¹ Discussions of C&AG's reports by PAC and finalisation of its recommendations have been slow and the various years report shows it also. In the activity report of 1998-1999, PAC selected 7 per cent of the total 1197 paras included in C&AG Reports on Central Government. Actual examination was confined to 2 per cent of the paras. Reports on Central Excise and Customs Receipts and on Autonomous Bodies and Scientific Department were not discussed. Large- scale exclusion of items from examination and discussions also restricts the effectiveness of Parliament. The following table 1.4 gives the picture that despite being C&AG submission of Audit Report containing thousand of paragraphs from all sectors, PAC selects only few and that only which is of their importance. On these selected paras, further meetings held that have not increased over the time and only few have been tabled for the discussion in Parliament. Lack of adequate and timely response to the audit objections initially, and at the later stages to the paras and reviews contained in the Audit Reports, has been the major drawback in the working of the system, as has been revealed during the past decades, despite the mandatory provisions in the rules, regulations and instructions issued by the Government for the prompt action on the audit objections, which places the final responsibility for replying then on the Heads of the Departments and the Secretaries to the Governments concerned. Lack of response to audit paras renders Audit Reports bulky, voluminous and unmanageable for one single committee to deal with them within a set time schedule.⁴²

⁴¹ C&AG: Activity Report 2004-05, Available online at [http://saiindia.gov.in/english/home/about us/Performance Activity/2005/2005.html](http://saiindia.gov.in/english/home/about_us/Performance_Activity/2005/2005.html), last accessed on January 12, 2012.

⁴² R K Chandrashekharan, *The Comptroller and Auditor General of India: An analytical history*, Vol. IV, New Delhi: Ashish Publishing House, 1990, pp. 1867-1870.

Table. 1.4
EXAMINATION OF AUDIT REPORTS OF THE UNION GOVERNMENT BY
CENTRAL PAC/COPU TABLED IN PARLIAMENT

Year wise	Total reports	Total no. of paras	Reviews	No. of paras selected	Meetings	Discussions
2006-07	12	1606	-	-	40	28
2005-06	12	1641	-	744	23	21
2004-05	21	2233	47	12	19	11
2003-04	21	1413	44	-	26	11
2002-03	18	3458	37	-	33	29
2001-02	21	1469	62	93	38	29

Source: C&AG Activity reports, various years⁴³

The table in itself shows that PAC is faced with a huge information overload. While there is a method of Action Taken Note to deal with paras not examined by PAC is required to be submitted by the Ministries, it has hardly accepted the purpose and is become more of a formality. So the question arises as to how to deal with these huge voluminous of work is a major challenge before the PAC. If one looks at the sittings of PAC during the years shows that the sittings has also not increased over the period of time. The workload has increased in the forms of paragraphs which PAC hardly takes into account all. So to deal with these huge volume of work, the only way out could be the increase in the sittings of PAC and better efficiency; should work through sub-committee system that has been rarely done in the various years; and C&AG drastically reducing the volume of its reports and improving its quality and standard.

Public Accounts Committee in the States

The functioning of Public Accounts Committee in States is in total disorder. In most of the states, the PAC's are not constituted on time and when they are constituted they meet infrequently and the consideration of Audit reports remain in heavy arrears. There were

⁴³ C&AG Activity Reports, various years. From 2000 to 2007. Available online at http://saiindia.gov.in/english/home/about_us/Performance_Activity.html, last accessed on January 12, 2012.

over 12000 paras pending at the end of 2004 which are yet to be discussed, out of which PAC could only examine 500 paras.⁴⁴ So there always remain the backlog of work as every year, a new audit report is submitted with more work to do and simultaneously there is previous years pending work which has not been discussed during the time of their in-depth examination. It has been seen that that in most of the states last so many years paras are discussed at one point of time. Audit findings are reported after a lapse of considerable period from the time the event has taken place and if the consideration of the report is delayed by as much as five to ten years, the value of the recommendation is lost which often happens in the case of Indian states. A major problem with the State PACs unlike its counterpart at the Centre is that they do not separately consider report on Appropriation Accounts included in the Audit Reports of the C&AG. A huge sum of excessive expenditure over voted grants by various states is lying unregularised.⁴⁵ In the states, discussions of CAG's Audit Reports have been pending for 15 years in some cases. In several states, including UP, the discussions of CAG's Reports are pending since 1983 as the PAC's report is recommendatory and not binding on the Governments.

Table 1.5
EXAMINATION OF AUDIT REPORTS OF STATE GOVERNMENTS BY THE
VARIOUS STATES PAC/ COPU TABLED IN THE STATE LEGISLATURES

Year wise	Total reports	Total no. Of paras	Reviews	Paras selected	Meeting	Discussed	Yet to be discussed
2006-07	67	1646	-	-	913	1889	-
2005-06	60	1394	-	107	874	1654	-
2004-05	65	1651	252	-	642	1583	-
2003-04	66	1967	235	-	887	1697	15435
2002-03	65	1702	222	-	745	1271	12892
2001-02	59	1890	251	-	1027	2803	15268

Source: C&AG Activity Reports, various years

⁴⁴ Somnath Chatterjee, Seminar on, 'Legislative Audit Interface for Enforcing and Strengthening Accountability Mechanism', organized by the office of C&AG on July 22, 2005, Available online at http://www.ipaiindia.org/files/First_Issue_-_April_2006.pdf, last accessed on May 24, 2012, pp. 1-6.

⁴⁵ B P Mathur, *Government Accountability and Public Audit: Re-engineering the Comptroller and Auditor General of India*, New Delhi: Uppal Publishing House, 2007, pp. 199-200

Even in the reports of the C&AG's the due importance is always given to the audit reports and for that being at many times, the certification of Government account aspect remained untouched. The C&AG's main task is to ensure that Audit's main task in relation to accounts of Government is to provide assurance to the tax payers that every single penny has been properly accounted for and spent for the purpose for which it was authorized by the Parliament is truly achieved or not.

The most important feature in order to check avoidance of public accountability is excluding of the C&AG's jurisdiction from the audit of banks and from the other financial institutions.⁴⁶ The impact of the audit function would be greatly enhanced if greater attention was paid on the need for a more holistic approach; one where the contribution of audit and the legislature oversight function taken together was also subject to some form of measurement and public reporting like a bi- partisan approach to the audit and legislative oversight.⁴⁷

C&AG and Media

Media plays a pivotal role in the audit reports of C&AG. The accessibility of the audit findings is easily available once an Audit Report is placed in the House, it becomes a public document available to anyone and to the media and media used to cover the audit findings later on. The media, over the years, has started giving much coverage to Audit Reports findings. It has always been active in picking up any incident or event that significantly affected the C&AG⁴⁸ and sometimes they cover some specific audit findings that made news for them. Recent instances of these are CWG and 2G Spectrum because PAC and COPU has most of the time severe time constraints to discuss all the paras of the Audit findings and make recommendations on that. In this context, it become necessary to

⁴⁶ K.S. Ramachandran, *Watching over a watchdog: A Critique of the Working of CAG*, New Delhi: Ashish Publishing House, 1991, p. 71.

⁴⁷ Vinod Sahgal, 'Audit and Legislative Oversight: Developing Country Perspective', in a workshop organized by the *United Nations Department of Economic and Social Affairs (UNDESA)* in partnership with the Board of Audit and Inspection (BAI), Republic of Korea, 6th Global Forum on Reinventing Government, May 22 2005, Available online at website <http://unpan1.un.org/intradoc/groups/public/documents/un/unpan020690>., Last accessed on April 21, 2012, p. 11.

⁴⁸ Vinay Kumar, *The Comptroller and Auditor General of India: A Thematic History 1990-2007*, Vol. II, New Delhi: APH Publishing House, 2008, p. 782.

have a wider dissemination of Audit Report finding to public at large through media which is a great relevance to C&AG as it calls for a proper evaluation of C&AG's media policy During the tenure of A. K. Chanda who was the second C&AG of independent India, coverage of C&AG reports by media was regarded as the healthy trend of the developing parliamentary democracy which added to the responsibility and need for the caution on the part of government auditors. This was the position in the 1950's. During V.K. Shunglu's time, several instructions were issued on this subject. Now not only a Media policy is there but also a comprehensive 'communication policy'⁴⁹ is there to guide the Audit Department's relationship with other external agencies/ organizations with whom it interacts. . It was only during V. N. Kaul time when the C&AG team started by giving press a proper 'Brief' highlighting the important Audit finding of the audit report and the system of issue of "Press Brief or Press Note" were given to the Secretariat of the PAC which would release them to the Press on the day of the Audit reports were tabled in the House. The formal footage of it was started since 1986 and these Briefs were approved by C&AG along with the concerned Audit report and these observations were incorporated in an Overview at the beginning of the report.⁵⁰ The question of holding a press conference with the media was taken up in the XIX Conference of Accountants General in November 1996 and these Accountants General will may call for a press conference after tabling of the Audit Report. It also suggested that that the Accountants General could also manage for a panel discussion on TV on the topics which are not selected by PAC and COPU. So all these resulted into a issuance of a 'Media Policy' for IA&AD on January 2005 and the venue for these would be Parliament House or State Legislatures or the offices of the IA&AD.⁵¹

Recent developments in strengthening the media policies are the appointment of the Media Advisor at the Headquarters and the second the creation of a post of OSD (Communication Policy) of Director General and Officer on Special Duty. It was issued for the use of Department in 2007. Various examples where Media played a prominent role in the coverage on Audit Report findings are Review Bofors Gun Purchase in C&AG

⁴⁹ The objective of communication policy is to ensure rapid and timely dissemination of information regarding the activities of the Department; in particular the results of audit by the C&AG, to the public and the press/ media once the Audit Reports are tabled in the house. Ibid, p. 771.

⁵⁰ Ibid, p. 773.

⁵¹ Ibid, pp. 774-777.

Report on Defence Services in 1989, of Procurement for OP Vijay (Army) in 1999, Sale of two Centaur Hotels in Mumbai in 2005 and the recent CWG and 2G Spectrum cases in 2010, etc. So these events have significantly affected the C&AG and the relation of C&AG with media has grown considerably during the present C&AG's tenure. Thus, the media coverage of Audit Reports is not only a fault finding agency but also it helps in promoting good governance.⁵²

At the end of this chapter, it can be said that C&AG plays an important role in the auditing field. Its scope and area has been widened over the years and its function has been increased in the last 40 years. Although this office has always remained the controversies due to the various cases of irregularities and misappropriation of funds, it is the office and its dedicated team that has bring out such cases into the forefront. Thus the task of C&AG became much more important and pivotal in a country like India.

⁵² Ibid, pp. 781-783.

CONCLUSION

CONCLUSION

“Nobody likes to be audited or held accountable. Yet the task of auditing and evaluation is critically important in a democracy. In order to have faith in government, institutions like CAG are a must.”¹

David M Walker: Comptroller General of USA

The institution of C&AG possess an important place in India as it provides the strength to the principle of accountability. A lot of changes and developments has occurred in the functioning of C&AG which enhanced its role over the period of time in increasing the legitimacy of democratic state. The C&AG created under the Indian Constitution was a free, independent and neutral authority, unlike western countries, C&AG in India is neither a purely executive body nor a complete the legislative institution. Though Indian model of C&AG is based on the British pattern, but there has been some provisions where it is far different from case of UK. For example, In India, there is no such provision for centralised exchequer control by the C&AG which is their in the UK where the exchequer control is exercised by the C&AG on behalf of the Parliament which reduces the scope for excessive expenditure over the grants. So the question arises whether the Westminster model of UK is suitable for a country like India where it has faced cases of irregularities, misuse and misappropriation of funds in large numbers.

The C&AG is the unified supreme audit authority for both the Union and State governments, one of the unitary features of the federal polity and was assigned with both accounting and auditing functions of the Union and State governments and where account and audit are the part of the Union List. The C&AG is thus, as head of the Indian Audit and Accounts department, an office created by the Constitution to see that diverse authorities act in regard to all matters in accordance with the Constitution and the laws and rules framed there under. C&AG of India is an agency that has been created to verify on the behalf of the legislature

¹ B.P. Mathur, *Government Accountability and Public Audit: Re-engineering the CAG of India*, New Delhi: Uppal Publishing House, 2007, p.63.

that the expenditure or revenue incurred collected by the executive is in accordance with the letter and spirit of the demand made by the legislature.

The supremacy and credibility of this office has always been questioned and the audit is always remained a controversial issue in India. This dissertation has been an attempt to understand the nature of this office and the controversies surrounding this office. The chapter on the theoretical understanding to study an institution provides an insight into the way and perspectives in which the institution of C&AG can be studied. In the second chapter, we apply legal- institutional and historical perspectives to study the office of C&AG which is suitable for this and the reason for choosing this approach lies in the context of this office that being an C&AG as an institution of a colonial disguise and a constitutional body, it flourished and taken the present shape by evolving historically over the period of time and lastly dealing with the changing nature and functioning of C&AG and the impact of C&AG's report on the government decision making process and these reports are further examined by the Public Accounts Committee to assess the performance of the government and the role C&AG plays in the cases of irregularities. Audit contributes to the accountability process through objective and independent analysis of the performance information and reporting to such matters to the Parliament. The participation of media in the committee deliberations also helps in improving public financial accountability. The empirical data in the last chapter provides us with the insight of ability and inability on the part of C&AG in dealing with the cases of fraud and irregularities that has occurred over the years and the role it plays in such activities.

Mukhopadhyay and various other scholars talks of various constraints and limitations on the working on C&AG and the aspect of the audit. The first constraint he talks about is the independence of this office. Independence of C&AG provides strength to the principle of accountability. Being a constitutional provision that C&AG has to presents his Reports to the President or the Governors who further cause them to be laid before the Parliament or the Legislature(s). In reality, these provisions have been misused by the State Governments to delay the Reports presentation according to their will though they no role once the Reports are finalised. Due to this, legislatures are deprived of their privilege of timely information about the executive performance through CAG's Reports. This issue will need speedy resolution through suitable legislation, if necessary in the overall national interest and the need to strengthen legislative financial control.

Another limitation on the part of C&AG audit is that a large number of audit reports are not discussed by the financial committee PAC and COPU both in the Centre and the States. The picture is very clearly seen from the activity reports where the reports that are submitted by the C&AG includes thousands of paras, and only a few chunk of paras are reviewed and selected for discussion that is further tabled in the Parliament. Large numbers of Audit Reports are not being discussed by PAC and COPU both in the Centre and the States. In many States, replies to most of the audit observations are not provided at all by government departments or are delayed at length and the Audit Reports are finalised without considering government's views. After the Reports are laid, government Departments do not furnish explanatory memorandum to PAC and virtually no action is taken by them till the PAC discussion is held. In many cases, the replies are incomplete or tentative. There is no prescribed date for the submission of the annual accounts and audit reports to the central and state legislature. Thus, the lack of concern and non-responsiveness of governments invalidate the effectiveness of audit. In the states, the discussions on the reports are pending since long time and these pending cases increases every year. The huge arrears in discussion of Audit Reports and non-action in the matter of audit observations have fostered an atmosphere of lack of accountability principle which hinders the affect the inability of the Parliamentary control as the Parliament unable to enforce the accountability principle when they challenges the accountability relationships. According to T.N. Chaturvedi, the government, both the Central and the State government ignores audit. He says that the situation is so intolerable that the neglect of the audit by the government 'threatens to undermines the whole system of accountability' and he considers it 'the most strange and puzzling phenomenon of Indian democratic system.

Over the years, it has come into forefront that in order to ensure the process of accountability based on the audit done by the C&AG and its explanations by PAC have been significantly weakened. No explanation on the matters of excessive expenditure has been given and the same budgetary aberrations and pendency continue to exist year after year.

Another problem related with this office in continuance with the previous point is that sittings of the PAC on the C&AG reports has not been increased over the years and there is a dire need to give timely discussion on the important issues of mismanagement and corruption highlighted in the C&AG reports. It should discuss the issue of systematic nature,

programme, performance and results from the observation of C&AG rather than looking into the specific cases which are only important to the PAC which in a long run will be helpful in ensuring the accountability principle of executive and contributes to the improvement in administrative in the realm of finding of the audit reports. Here the role of press and media becomes more important. If a Parliamentary proceedings can be telecast, then the meetings of PAC and COPU are also to be telecasted in order to foster public accountability. Thus, it explains the issues of audit and gives an action plan for reforming the institution of C&AG. The other constraints on the part of this office is regarding to the appointment as there is no specific prescribed criteria for appointing the C&AG.

Paul Appleby, in his two reports on Public Administration in India (1953) and Re-examination of India's Administrative System (1956), was very critical of the role of Comptroller and Auditor General and attacked the significance of its works. He suggested that the C&AG should be relieved from the responsibility of audit. In other words, he recommended the abolition of CAG. His point of criticism was that the function of C&AG in India is in large measure, an inheritance from the colonial rule.

Despite the fact that there are various constraints and limitations on the working of this office, what cannot be ignored that it was only the C&AG's which has brought into picture various cases of fraud and irregularities. Even the reviews of projects have been praised by the International organizations like World Bank and there have been possibilities and efforts put forth for its effectiveness.

To sum up the study, it can be said that this study is limited in its nature and looks the institution from legal – institutional and historical perspectives only, it is only one perspective of evaluation of the institution of C&AG. This study does not purport to claim to study it from this perspective only. We should not be guided only by a single perspectives rather it can be also be seen from other perspectives also. We may not indulge ourselves in a more simplistic, comprehensive condemnation of the institution of C&AG as proposed by the scholars rather should made an attempt to adapt it to all situations and we must unravel the issues in every aspect of the institution

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