FINANCIAL CONTROL

Need for Financial Control:

Control must be applied to the general management of a business— the seventh function just as much as to the other six; Production, Distribution, Development, Accounts and Finance, Legal and Secretarial, Personnel and Industrial relations. Since the business stands or falls on its financial basis, the control of the financial aspect of affairs needs even more care than the others. Financial control is a range of checks and balances, by means of which the financial position of business is constantly watched. In this, the end to keep in view is that nothing in the business should go un-noticed and without being reported to the top management. That is why it is said that failure in business occurs, not because a wrong commercial policy was initiated, but because a policy, shown by the results to be wrong, was persisted in too long. Or the inability to abandon a losing game and find a winning alternative before the redemption becomes impossible. If there happens to be no such control in a business organisation where huge funds are invested, the results can be obvious. It is, therefore, argued that no organ of the Government should be granted absolute freedom of action and power because that may lead to absolute corruption. Public enterprises are set up by the Government with certain definite objectives and thousands of crores of rupees are invested in them
out of Government funds. As such, these enterprises also fall within the same category to which the principle of financial control should apply. If these public enterprises are made immune from such financial control, these might grow into a menace for the society.

Problems of financial control may be discussed in its two aspects—(1) internal financial control and (2) external financial control.

INTERNAL FINANCIAL CONTROL:

The success of a business concern is dependant upon the soundness of financial organisation operating within the business concern, which inter alia includes the system of accounting, budgetary control, standard costing, break-even analysis, marginal costing, value analysis, internal audit and such other techniques of management accounting. The object of introducing this control system is to establish a sound financial and accounting base, to make available to the management quick and reliable information for taking decisions. No business can function effectively and efficiently if this base is found to be weak.

BUDGETARY CONTROL SYSTEM:

To have a real and meaningful financial control there is need of introducing comprehensive budgetary control and costing system in all industrial and commercial undertakings in the public sector. Such a system should embrace the entire undertakings and cover all its activities. Under such a budgetary system a plan covering
all phases of operation and a programme of action for a
definite period is to be conceived. This will enable the
management to review the actual performance as compared
with promise and intentions. Cost of production state-
ments should be prepared every month and quarter and
checked with standards assumed at the time of preparation
of the budget and the causes of variations investigated
in detail. Actuals should be compared with budgeted figures
at periodical intervals and variations ascertained. The
expenditure budget should be reviewed twice a year so
that the management may be apprised of how expenditure
is progressing and may make necessary modifications before
the end of the year. There should be a close link between
budget heads and financial and cost accounting heads so
that reconciliation of figures between budget, cost and
financial accounts at periodical intervals can be easily
prepared and examined.

Each public undertaking should frame three
budgets— revenue, capital expenditure, and cash. The
revenue budget, should be treated as a plan for the formu-
ation of policies and for laying down the expected
standard of performance. It should be prepared in a form
which is intelligible to those who examine or approve
the estimates and to those who utilise it as a standard
for judging performances as compared with estimates. The
revenue budget should include sales and income budget,
research and development, administrative over-heads and
selling and distribution expenses.

Once the revenue budget is made, the provision should be treated as firm but not fixed. A certain amount of flexibility should be built in the budget process to enable the modifications of budget provisions during its currency. The figures of actual performance would be compared with those estimated in the budget at periodical intervals, preferably at the end of each quarter.

Approval of the capital budget should be based on the feasibility study of a project. Within the framework of the overall capital budget, the annual budget for capital expenditure has to be prepared. The actual results will have to be periodically compared with the budget to determine whether there has been any delay in the progress of work and whether the expenditure incurred is commensurate with the progress achieved.

The cash budget, which will enable a balance to be maintained between the available cash and cash demanding activities, should consist of forecasts of cash receipts and cash disbursements.

Public undertakings should compile a comprehensive budget manual to include forms for compiling the basic information necessary for the preparation of a budget, time schedule, responsibility and cost centres, financial powers related to budgetary levels and the constitution and functions of budget committees.

In this regard the experience of public enterprises in India is not happy. The Audit Report of

Government Companies are replete with instances where no budgetary control or costing system was in operation. In the case of many undertakings, it was pointed out, no manual laying down the detailed procedure for the compilation and maintenance of accounts was available for the guidance of those who have to maintain the accounts. In the following undertakings no such accounting manual was available or account keeping was otherwise defective—(1) Hindustan Organic Chemicals, (2) Madras Refineries, (3) Instrumentation Ltd., (4) Hindustan Teleprinters, (5) Fertilizers and Chemicals Travancore, (6) Indian Drugs and Pharmaceuticals, (7) Indian Rare Earths, (8) Fertilizer Corporation of India, (9) National Mineral Development Corporation, (10) Shipping Corporation of India, (11) National Newsprint and Paper Mills, (12) State Trading Corporation of India, (13) Hindustan Steel Works Construction, (14) Central Fisheries Corporation, (15) Triveni Structuralis, (16) Pyrites and Chemicals Development Co., and (17) National Coal Development Corporation.

In the following concerns no costing system or budgetary control was in operation or it was found to be defective—(1) Hindustan Cables, (2) Heavy Electricals, (3) National Coal Development Corporation, (4) Rehabilitation Industries Corporation, (5) National Industrial Development Corporation, (6) Heavy Engineering Corporation, (7) Bharat Heavy Electricals, (8) Fertilizer Corpn. of India,

2 Ibid.

In the case of the following companies wide variations between the Budget Estimates and the Actuals were noticed:

1. National Small Industries Corporation Ltd.,
2. Hindustan Photo Films Manufacturing Company Ltd.,
3. Heavy Electricals (India) Ltd.,
4. Bharat Electronics Ltd.,
5. Hindustan Housing Factory Ltd.,
6. Indian Telephone Industries Ltd.,
7. Hindustan Teleprinters Ltd.,
8. National Research Development Corporation of India Ltd.,
9. Hindustan Antibiotics Ltd.,
10. Fertilizer Corporation of India Ltd.,
11. Hindustan Cables Ltd.,
12. Hindustan Aircraft Ltd.,
13. Fertilizers and Chemicals Travancore Ltd.,
14. Rehabilitation Industries Corporation Ltd.,
15. Garden Reach Workshops Ltd., and

The main reason for such state of affairs is that, as a matter of fact, these public enterprises did not

3 Aud t Repor Commercia 1965. p.- 131
evolve any accounting and budgetary control system of their own that could be adopted by them. In most of the cases Chief Accounts Officers or Financial Advisors who joined the public enterprises in their formative stages were deputed from Government Departments. They, naturally, brought with them their own understanding and experiences of Government financial systems and installed the same procedures in these enterprises. They had had no experience or training in running industrial and commercial concerns.

In view of the above it becomes imperative that to improve matters various management accounting techniques explained above must be introduced in all public enterprises. Accounting systems and procedures need to be oriented to suit the requirements of industrial and commercial enterprises, so as to generate reliable information for the management.

**INTERNAL AUDIT:**

Internal Audit is another tool for the effective enforcement of financial management. Whatever financial organisation may be proposed in a business concern, there should be a continuous agency within the organisation itself to see that the financial discipline is being observed as planned. It is sometimes referred to as the 'eyes and ears of management'. The Internal Auditor's work should involve (i) appraising the soundness, adequacy and application of accounting and financial system, (ii) ascertaining the extent of compliance with the established
rules and procedures, (iii) checking the reliability of accounting and other data developed within the organisation. Internal Auditor keeps the management informed of the deficiencies discovered during the course of audit and suggests improvements for the future. The existence of Internal Audit system in the concern acts as a great moral check and keeps the staff alert and attending to their respective jobs. The discrepancies and deficiencies discovered are corrected and set right in time and do not come to the notice of professional auditors and Comptroller and Auditor-General and the enterprise is saved of a lot of criticism. Thus, this watch dog service proves to be very useful for the management. Mr. Ranson compares Internal Auditor to a family doctor who undertakes regular medical checks to ensure that all is well or if something is amiss, suggests remedial measures. Sometimes, it is suggested that the scope of work of an Internal Auditor is limited to ticking and routine checking of accountancy transactions. The other view is that Internal Audit amounts to an appraisal of the management. Both these views appear to be based on the wrong concept of the system. As discussed above the system works as a real service to the management and not confined to routine checking of accounting transactions.

Indian public enterprises are deficient in respect of internal audit also. It seems that no due attention
has been paid to this aspect of financial control. The Central Government Audit Reports (Commercial) point out, year after year, that in many of the public enterprises either there is no internal audit system in operation or if it is there, it is found to be ineffective. In the following 25 companies no proper system of internal audit was in operation:

1. Praga Tools Limited,
2. Rehabilitation Housing Corporation Limited,
3. Film Finance Corporation Limited,
4. Mogul Line Limited,
5. Hindustan Teleprinters Limited,
6. National Research Development Corporation of India Ltd.,
7. Indian Drugs and Pharmaceuticals Limited,
8. Cochin Refineries Limited,
9. Pyrites and Chemicals Development Company, Limited,
10. Mahan Foundry Limited,
11. Hindustan Salts Limited,
12. Manganese Ore (India) Limited,
13. Rehabilitation Industries Corporation Limited,
14. Garden Reach Workshops Limited,
15. National Industrial Development Corporation Limited,
16. Minerals and Metals Trading Corporation of India Limited,
17. Central Fisheries Corporation,
18. Hindustan Steelworks Construction,
19. Madras Refineries,
20. Instrumentation Limited,
21. State Trading Corporation of India Limited,
22. National Instruments,
23. Rourkela Steel and Fertilizer plants, Coal Washeries, Alloy Steel Plant and Bhilai Steel Plant.
24. Hindustan Latex Limited, and

Audit Reports (Commercial) 1965. p.-133 and 1968 pp. 120-143.
In the case of the following companies the existing system is not considered to be comprehensive and effective:

1. Hindustan Photo Films Manufacturing Company Limited,
2. Indian Rare Earths Limited,
3. Hindustan Housing Factory Limited,
4. Hindustan Antibiotics Limited,
5. Fertilizers and Chemicals Travancore Limited,
6. Fertilizer Corporation of India,
7. Indian Oil Corporation Limited,
8. Janpath Hotels,
9. Neyveli Lignite Corporation,
10. Shipping Corporation of India,
11. Hindustan Aeronautics Limited,
12. Hindustan Cables,
13. Hindustan Insecticides,
14. Ashoka Hotels,
15. Sambhar Salts,
16. Triveni Structuralis,
17. Engineers India Limited,
18. Heavy Engineering Corporation,
19. Heavy Electricals,
20. National Mineral Development Corporation,
21. Hindustan Shipyard,
22. Mazagon Dock,
23. Durgapur Steel Plant, and
24. Central Road Transport Corporation.

In view of this deficiency it is suggested that effective internal audit system should be introduced in all public enterprises as a measure of internal financial control. (Audit Reports Commercial) 1966 p.p. 169-182 and 1968 pp. 120-143.
External financial control concerns itself with issues such as public accountability, regularity and efficiency audits and set up of the necessary machinery for getting reliable information for the Parliament, to enable it to scrutinize the working of public enterprises. It cannot be denied that Parliament being the supreme authority, in the country, must be kept informed regarding the performance and progress of public enterprises. Mr. Pannikar¹⁷ laid great stress on this issue from the constitutional point of view. He said that as long as Government funds are invested in public enterprises, their responsibility to Parliament cannot be overlooked or ignored on the ground that these enterprises are being run on commercial lines as autonomous units. So long as the Minister-in-charge is ultimately responsible to the Parliament for the investment of Government funds, his responsibility cannot be shirked and this will invite overall supervision and control by the Government. If authority of the Parliament is designed to be ousted by establishing such operating units as Government Companies it will amount to a fraud on the Constitution.⁸ Such control is all the more important in the case of developing countries like India because of scarce resources at the disposal of the State. "There must be strict financial responsibility to a public authority, in order to ensure regularity and honesty in the employment of funds. This is particularly important


⁸ Chanda Asok, formerly Comptroller and Auditor-General of India.
in an under-developed country, where corruption and mal-practice are all too likely to flourish."

This responsibility to Parliament or any other public authority has been called by Robson as 'Accountability'. According to him to account for one's actions means that one gives a report of what one has done in a specified period of time, with whatever explanations may be necessary to justify the actions performed or ends pursued. It means that account should be rendered by a public enterprise to some higher authority and that, if the latter is dissatisfied, it can order that steps be taken to put matters right. Accountability, therefore, includes control and one is meaningless without the other. Accountability to the public means rendering of accounts to the Legislature. Select Committee of the British Parliament remarked as under regarding the Accountability of Nationalized Industries:

"The need of accountability in the Nationalized Industries arises from the vast amount of capital, and of income and expenditure involved in concerns which are under public ownership; the charges upon consumers and users of the necessities of civilised life which they provide, and the Treasury guarantee of the interest paid on the stock issued in respect of the various Nationalized Industries."

PURPOSE OF ACCOUNTABILITY:

When so much stress is laid on accountability there must be some purpose behind it. There are three

11 The Select Committee on Nationalised Industries H.M.S.O., (1953)p. 4.
fundamental objectives to be attained. One is to satisfy the Government, Parliament and the public that public enterprises are being run efficiently and progressively. The second is to safeguard the interests of the consumers and the third is to ensure that labour relations and personnel management are sufficiently good to avoid strikes and lock-outs. Because it is generally believed that public sector should be a model employer.

HOW THESE OBJECTIVES CAN BE ACHIEVED:

There are several channels through which these objectives can be achieved with a reasonable degree of success. There are Annual Reports, Consumers' Councils, Joint Consultation Councils, Parliamentary Questions, Motions and Debates and Standing Committees of the Parliament which convey information to the public. Minister-in-charge can ask for any information from public undertakings and can give any directions as he deems necessary. Thus financial control over public enterprises is exercised by Government and Parliament.

In the private sector, the function of presenting annual reports and accounts of a Joint Stock Company to its shareholders is precisely the same. Shareholders avail this opportunity to satisfy themselves with the manner in which the company is being managed. In this respect they seek guidance of professional experts like the auditors who are appointed by them.
to examine these accounts.

The position of public enterprises is entirely different from that of private enterprises. There are no shareholders in the sense as there are in the private undertakings. Public enterprise is owned by the nation and Parliament is supposed to represent the interests of the public. In India, in the case of Central Government undertakings, the whole or the major part of the share capital is held in the name of the President of India or his nominees and consequently it is the Parliament to whom the public enterprises are accountable through the Minister. In the public enterprises the Chief Executive has a distinctive responsibility. Instead of being responsible to an amorphous and rather ineffective body of shareholders he is under more or less continuous vigil of the Minister, Parliament and the public at large.

In India, the present modes of public accountability of public enterprises are diverse and varied. Parliamentary control over these enterprises is exercised in the same manner as explained above, i.e., through questions, debates, resolutions, examination by Estimates Committee, Public Accounts Committee and in special cases by enquiry by a special committee of Parliament. Members of Parliament elicit information by asking questions but instead of confining themselves to a survey of overall position, they often meddle into the day-to-day working of the enterprise. On the other hand,
in the United Kingdom Members of Parliament have imposed on themselves a kind of self-denying ordinance in regard to matters affecting Nationalized Industries. They might ask questions on the general policies but never ask questions on the day-to-day working. Here also, both, the Minister and the Parliamentarians should have a self-denying ordinance not to interfere in the day-to-day affairs of public enterprises. Like the Select Committee of the British House of Commons, the Estimates Committee of the Indian Parliament has been examining the working of various undertakings in the public sector but there has been so much pressure on the time of this Committee that it was not possible for it to examine the working of each of the public undertakings. To make Parliamentary control more effective another special committee of Parliament called the Committee on Public Undertakings was constituted in May 1964 to enquire into the working of public enterprises. This Committee is not a 'Fault-Finding' body or a 'Super Board of Management'. Its object is to make constructive suggestions for improvement in the management and working of public enterprises. It may be mentioned here that 'Accountability' and control should not be construed as to make the concern subservient to the Government. A commercial undertaking must be run on business principles. It must have a large measure of autonomy in the day-to-day administration. Though it may be subject to the general control and
supervision of the Government so far as broad questions of policy are concerned. But the concern should be given a free hand within the framework of that policy. But, unfortunately actual things are not so. The Estimates Committee\textsuperscript{12} of the Parliament noticed that in the relations between the undertakings and the Ministry the former are treated in the same manner as departments and offices of Government controlled and supervised by the secretariat. The State undertakings have thus become adjuncts to Ministries and are treated more or less on the same lines as any subordinate organisation or office. The Committee deplored this tendency which has had a harmful effect on the productive activity of the undertakings as these have been subjected to all the usual red-tape and procedural delays common to a Government department with serious consequential effect on production.

**AUDITING:**

Auditing of accounts is one of the means to keep a watch on the affairs of business concerns. This is of special significance in the case of public enterprises, because these owe a greater degree of accountability to the public directly and to the Parliament. This objective assumes still greater importance in a developing country like India, when it is realised that the funds have been invested from the Consolidated Fund of the Government built through collection of taxes--

\textsuperscript{12} E. S xteenth Report 5. para.-
direct and indirect—touching the pockets of each person in the country. Therefore, these public enterprises become a sacred trust of the people and their managers as the trustees. Thus there is a legitimate demand for a close supervision of the working of the public sector which would ensure unsullied and unmitigated accountability of these to the public. Next important question arises as to who should conduct such audits? It is suggested that public enterprises should be subject to a commercial type and not a Government type audit. In England the accounts of Nationalized Industries are audited by commercial auditors appointed by the Minister, not by the Comptroller and Auditor-General, and although they may be inquired into by the Public Accounts Committee of House of Commons, this body cannot subject them to an examination as detailed as that which it applies to the accounts of Government departments, for the simple reason that its expert adviser the Comptroller and Auditor-General has no power to go behind the figures. In the United States of America although the audit is conducted by the General Accounting Office under such rules and regulations as may be prescribed by the Comptroller-General of the United States, the law specifies that it shall be in accordance with the principles and procedures applicable to corporate transactions.

On the other hand, here in India, under Article 149 of the Constitution the Comptroller and Auditor-General
of India is empowered to audit the accounts of the Union and of the State and of any other authority or body as may be prescribed by the Parliament. Further Section 619 of the Indian Companies Act lays down that the auditor of a Government company shall be appointed by the Central Government on the advice of the Comptroller and Auditor-General of India, who is further empowered to direct the manner in which the accounts of the company shall be audited and also to conduct a supplementary or test audit if he so desires. This provision, however, does not apply to public corporations which have been created by special Acts of Parliament. The accounts of such corporations are being audited in the manner prescribed in their respective statutes. But generally, even in these cases, the Comptroller and Auditor-General has either been empowered to conduct the audit by himself or professional auditors are appointed in consultation with him. Such audit reports of the Comptroller and Auditor-General or of professional auditors with his remarks are presented to the Parliament. In addition to the above, the Public Enterprises are often given directions by the Government to provide adequate information by preparing full and factual annual reports and accounts, organising efficient public relations departments, issuing informative literature regarding the affairs of the public enterprises. From the above, it becomes clear that public enterprises are subjected to a severe type of tests of public accountability.
EFFICIENCY AUDIT:

Financial audit with conventional tools may be found to be wholly inadequate for examining the working of public enterprises. What is crucial in the case of these enterprises is the need for critically looking into the quality of decisions which inter-alia would cover the nature and direction of investments, production planning, costing, distribution, etc., etc., and the long term cost and effects of the decisions taken by the management, rather than confining attention merely to vouch-safing for the correctness and completeness of the financial transactions and their presentation in the prescribed form of Profit and Loss and Balance Sheet.

The vital need today is not routine audit of financial transactions but to find out whether the public enterprises are being run with a reasonable degree of efficiency. Information is required which can throw light on productivity, quantity and quality of goods or services provided, price policy, efficiency of administration, personnel questions and relations between the board and consumers and the methods of financing. To achieve this objective Robson has suggested the setting up of an 'Audit Commission' to hold efficiency audit at regular intervals. These Efficiency Audits would be wider in scope than the customary audit of accounts. Their object would be to ascertain whether a public enterprise is conducting its work well or feebly to

call attention to merits and short-comings and to make suggestions for improvement, and to act as the eyes and ears of the general public. Such reports should be submitted to the Minister-in-charge and to the Parliament. It appears to be a very sound argument that the general public and the Parliament cannot be adequately kept informed about the condition of public enterprises unless some machinery is set up for providing them with expert guidance. The magnitude and complexity of the public enterprises are such that without expert examination proper evaluation of their performance cannot be done. The reports of an Audit Commission will go a long way in filling this gap and such reports would be made available to the Standing Committee on Nationalized Industries and their services would be at the disposal of the Minister. Thus what is required in the case of public enterprises is the management audit or 'efficiency audit', the purpose of which is to show to the men in positions of management their errors and short-comings of their ways and their far-reaching long term effects. Such an efficiency audit can be conducted by a team of technical people capable of comprehending and judging the problems of Capital Projects of the public sector. The knowledge of costing is also necessary in the audit team as also experts in productivity, marketing, personnel and general management functions. Unlike financial audit which can be carried out by one or more persons with financial expertise, the efficiency audit will require the services of a group of experts
ranging from Engineers, to Social Scientists. Such an efficiency audit will act as an accelerator for securing faster development of public sector and the economy at the minimum cost rather than a brake on the initiative of those or a mill-stone tied round the neck of those who have to take vital decisions.

People in management of public enterprises are opposed to this type of efficiency audit because they do not like their affairs to be probed in and brought before the public eyes. It is argued that such an outside investigation would have paralysing influence on the enterprises. Such arguments about undermining the authority and sense of responsibility of the Board, lack of confidence in the members of the Board and encouraging the staff to play for safety are usually advanced by the men in authority to oppose any measure of reform of this type. Such frivolous arguments and undue sensitiveness on the part of Boards of management towards the findings and criticisms of such an 'Audit Commission' should be firmly discouraged and discounted. They should have no objection to subject to periodic enquiries by an expert body concerning the efficiency with which they are conducting the business which Parliament and the nation have entrusted to them.

In India, the Comptroller and Auditor-General has asserted his right to carry on such an efficiency audit in all the audits conducted by his Department or by professional auditors under his control. Under Article 149 of the
Constitution he has successfully claimed the right to evaluate the economy and efficiency of the public enterprises. Such a claim on the part of the Comptroller and Auditor-General cannot be sustained on any grounds. Firstly, the institution of Comptroller and Auditor-General has been created in the Constitution to vouchsafe the expenditure incurred by Government departments. Funds are allocated for various Ministries in the annual budget and there are set rules and procedures for incurring such expenditure. The Comptroller and Auditor-General’s office is to see that Government funds are being spent in accordance with such rules and keep within the budgetary allocation. Such rules and regulations cannot, by any means, be made applicable to business enterprises. Business enterprises are entirely different in their purpose and functioning and therefore their accounts should be treated differently. Staff in the office of the Comptroller and Auditor-General is accustomed to a set procedure of auditing Government departmental accounts and it is difficult for them to adapt themselves to the changed set up. The staff does not have the necessary expertise and training to evaluate performance of business enterprise. In this connection the observation of Mr. Subramaniam, the then Minister, Government of India, is very relevant. He said that “It should be recognised that industrial accounts and financial controllership are a class apart from Government accounts.”14 Secondly, pressure of work in connection with the auditing of

14 C. Subramaniam, Inaugural address reported in the 'Working of Public Sector' edited by V.V. Ramanatham 1966. p.- 5.
Government accounts is so acute that Comptroller and Auditor-General finds little time to perform the functions of an efficiency audit. As discussed earlier, for an efficiency audit, we need a team of experts in different areas, such as financing, costing, management accounting, engineering, etc., etc., and Comptroller and Auditor-General's office may not have such experts. Therefore, it does not appear advisable to leave this important task of performance evaluation of public enterprises to the charge of Comptroller and Auditor-General. Mr. Appleby, who enquired into the India's Administrative System of Government's Industrial and Commercial Enterprises, is very critical of the exercise of these powers by the Comptroller and Auditor-General of India.

15 Paul H. Appleby, Consultant in Public Administration, the Ford Foundation, 'Re-examination of India's Administrative System with special reference to Administration of Government's Industrial and Commercial Enterprises, p. 29, said:

'This audit by the Comptroller and Audit-General will be generally directed towards a review of the decisions taken by the Board of Directors to ascertain to what extent their powers have been exercised in the best interest of the undertakings to see whether the powers delegated to the Chief Executives have been exercised properly.

Nothing could be more calculated to stop the Plan in its tracks, to undermine responsible Government and to establish Government of, by and for auditors. What special competence for appraising objectives and appraising administrative performance in general has the Comptroller and Auditor-General? What is Cabinet for, what is the Prime Minister for, what is Parliament for, what are the individual ministers for, what is a Secretariat for, and what is a bureaucracy for?

Parliament is surely at fault in this. It has a greatly exaggerated notion of the importance of auditing to "Parliamentary responsibility", and so has failed to define the functions of the Comptroller and Auditor-General as the Constitution contemplated it would do. Into the vacuum thus felt, the auditor has moved.'
The position taken by the Comptroller and Auditor-General of India is in marked contrast to the modest position taken by the Comptroller and Auditor-General in England. He said, "I should like to make it clear that I should certainly not claim that I could undertake an efficiency audit. I think there is a lot of misconception about this. I do not believe myself that any examination of a Board's accounts can ever lead to a right judgement upon the efficiency as such of the organisation itself." Even the report of the United Kingdom Parliamentary Select Committee on State Enterprises which was submitted to the Parliament in July 1959 did not support the appointment of an officer of the status of Comptroller and Auditor-General to assist the Committee in its proceedings.

"It is a fatal mistake to suppose that a person who is a good Accountant General is for that reason a good choice for giving financial advice in an industrial plant."

Administrative Reforms Commission while reporting on Public Sector Undertakings examined this issue and recommended the French System under which a separate Commission namely 'Commission de Verification des Comptes' (Commission of Verification of Accounts) is set up under

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16 Sr Frank M. Tribe, the then Comptroller and Auditor-General of the U.K.; evidence given on 22nd January, 1953 before the U.K. Select Committee on Nationalized Industries, reported in Lokudyog February 1968. p.-25.

17 Ibid. p.-29.


efficiency audit in respect of public enterprises. The Commission has a number of Boards, each consisting of three Magistrates of the Cour des Comptes (Audit Court) and two other members appointed by the Government. Following this pattern, A.R.C. has suggested the setting up of four or five Audit Boards to audit the accounts of specified groups of public undertakings. Each of these Audit Boards will have five members; three of them from the organisation of Comptroller and Auditor-General will be common to all of them. The other two members, who will be part-time, will be different for different Boards and will be appointed by Government in consultation with the Comptroller and Auditor General. For regularity audit purpose, the Audit Board may utilise the agency of professional auditors also. Efficiency audit for a systematic appraisal of the performance of public undertakings will be conducted by the Audit Boards' own staff. For this work the expertise of the Auditors under the Audit Boards should be augmented by employing economists, management engineers, statisticians, etc., etc. It shall not be necessary for the Board to undertake a comprehensive review of the work of each undertaking every year, but to examine the affairs of each once in every five years. Regularity audit shall continue to be done annually. These Audit Boards shall be constituted under an Act of the Parliament.

The French system of audit, explained above, did not
find favour with Mr. Bhattacharayya mainly on the ground that Cour des Comptes (Audit Court) is not an agent of the Legislature, while Parliamentary Democracy envisages complete control of the Legislature over the expenditure of public enterprises. In the opinion of Mr. Bhattacharayya the present Indian system is about the best Audit machinery so far devised.

There appears no force in the arguments of Mr. Bhattacharayya that the Audit Board under the French system will not be an agent of the Legislature. A.R.C. has suggested the creation of such Audit Boards under an Act of the Parliament under the provisions of which these can be made independent and given the status equal to that of Comptroller and Auditor-General in regard to the public enterprises. Such Audit Boards will have ample representation from the organisation of Comptroller and Auditor-General along with independent experts. The recommendations of the A.R.C. are in accord with the suggestion made above for the setting up of an independent Commission. It is further suggested that such Boards should be made absolutely independent of the Comptroller and Auditor-General and should not work under the general supervision of the Comptroller and Auditor-General as suggested by A.R.C.

In view of the above discussion it becomes evident that Comptroller and Auditor-General of India should not concern himself with efficiency audit of public enterprises. Rather this work should be performed by an independent Commission consisting of experts. For the purpose of public

accountability the report of such a Commission should be submitted to the Parliament. It may be suggested that the Parliament should amend the Constitution in this regard, if need be.

FINANCIAL ADVISOR:

Government of India has adopted a policy of introducing Financial Advisors in public enterprises. The object of this policy is to exercise an effective financial control on the enterprises. Such financial advisors are appointed by Government with the specific approval of the Finance Minister, with powers, appealable to the Ministry, of vetoing items of expenditure of which they disapprove. Financial Advisor is required to submit regular quarterly reports to the Government on the financial working of his enterprise. Experience to-date, however, does not suggest that this is a good system because the presence of such a watch-dog can reduce the independence of a public enterprise to the vanishing point. Such an appointment of a Financial Advisor by the Government lends to him a sense of superiority that stands in the way of development of cordial relations within the management team. Under such circumstances executive of public enterprises consider the financial advisor to be unnecessary device introduced in management pattern because it delays, even if it does not obstruct management decisions. Often it does obstruct such decisions and prevents the right decision being taken. The fact that the financial advisor is appointed by the Government with the specific approval of the Finance
Ministar, it is argued, creates a feeling of divided loyalty. Financial Adviser considers himself to be a superior authority to watch critically on behalf of the Government the manner in which the enterprise functions. This does not lead to homogeneous functioning of the management team.

The induction of a Financial Advisor by the Government to serve as the watch dog of the Government funds invested in public enterprises could be justified in those days when other tools of financial control had not developed and competent and qualified persons equipped with knowledge of Management Accountancy were not available. At that time, since, Financial Advisors were generally drawn from the Audit and Accounts Services of the Government they considered themselves to be the custodians of funds of public enterprises. It would be appropriate to mention here that there is no parallel to such an appointment in the public sector in Britain where the financial authorities are appointed by the Corporations just like other members of management.

As a matter of fact, the main tasks of a Financial Management in business organisation are (1) to ensure that the available resources are best utilised in business and (2) to assist the top management in carrying out its functions of management planning, control and evaluation of performance of all levels of business. The techniques which have been devised for the proper discharge of these functions are those of management accounting which inter-alia includes financial viability of capital investment, standard costing.
and budgetary control, inventory management, etc., etc.

Management Accountancy aims at analysing relevant information, highlights the deficiencies and conveys a complete picture to enable correct decisions to be taken by the management. Budget provides standards of performance against which actual performance is compared and variations are noted. Analysis of variations from the budget facilitates management control by indicating problem areas and the individuals responsible for them. Taken together Management Accountancy, Cost Accountancy and Budgetary Control can provide, on the one hand, basic materials on which management decisions can be taken, and, on the other hand, the means to evaluate the performance of and therefore, exercise control over subordinate levels of organisation. The perfection of these devices, their incorporation in the normal procedure of work of a business organisation, and the training of managerial executives in the proper use of the techniques form a much more important task for financial management than ad-hoc expenditure advice. The Estimates Committee\textsuperscript{21} of Parliament in this connection has suggested that management accountancy is an important means of controlling the cost of an undertaking and continuous appraisal of performance of various units. It is, therefore, of great importance to lay down an efficient system of management accountancy suited to the particular circumstances.

\textsuperscript{21} E.C. (Third Lok Sabha) 32nd Report on National Coal Development Corporation, para-262.
of each undertaking and of ensuring that it is followed faithfully and efficiently in actual practice. The most important element of Management Accounting is the reporting from time to time not only to the top management but also the middle and senior levels of management. A Financial Manager who performs these tasks and thereby helps the Executive Managers arrive at more rational decisions and at the same time exercise better control on their organisations automatically earns their respect. The change of emphasis from expenditure advice to the technical aspect of financial management is an important matter to which the public enterprises need to pay attention.

The foremost requirement in the public enterprises would be to ensure that those responsible for such management have the basic training for and at least some experience of such management. Experience of financial control work in Government departments though welcome as an added qualification, is not by itself sufficient to render a person fit for financial management of a business enterprise. Mr. Dutt\textsuperscript{22} writes that financial advisors drawn from Government departments do not necessarily prove adequate for the enterprises,

\textsuperscript{22} Mr. Dutt R. .. Secretary to the Government o Ind a, foreword in 'Financial Organisation in Public Enterprises' 1967 page-x. He writes, the Financial Advisor's task in Government is not the same as that in a business enterprise, and a person who has proved his worth in the former may not necessarily be able to adapt himself to the latter. In fact, the longer a person has been in a Government department, the less it is likely that he will be able to adapt himself to the needs of industry and commerce. To build up a body of Financial Advisors for the Public Enterprises, therefore, special training and an adequate system of career-planning are necessary.
however good they may have been in Government.

The Estimates Committee\(^{23}\) also suggested that financial advisors should possess experience of industrial accounting and some knowledge of principles and practices of financial management. Basic training in the commercial form of accounts and in cost analysis is essential for a financial executive, as is also a certain familiarity with modern methods of management accountancy. It is only persons specially trained for this purpose, who can undertake the tasks of financial management, just as only adequately trained Engineers can run the Engineering sections of the concern.

In the light of the above discussion and a new dimension given to the subject of financial control, the role that a Financial Advisor is required to play, in a public enterprise, is entirely changed.

**ROLE OF FINANCIAL ADVISOR:**

The role of a Financial Advisor in an enterprise has to be a positive one, if the enterprise is to succeed. He is not only the person who has to say "No", but also the one who has to point the way to top management how to solve difficulties. It is the accountant who tells top management how the costs are going, how inventory levels are to be controlled and how productivity is behaving. It is he who has to keep an eye on cash flow and figures of capital.

\(^{23}\) E.C. ird Lok Sabha 35 h Report on Heavy Electricals Ltd., Bhopal. para.-204.
expenditure. Against this canvas there is little place or time for him to bother about minor matters, i.e., a peon here or a clerk there. Financial Advisor should be near the heart of the management and out of the periphery of unnecessary details in which he is involved today.

The main functions of a Financial Advisor are (a) preparation of budget; (b) preparation of inflow and outflow of cash; (c) maintenance of accounts; (d) management accounting including cost accounting; (e) financial advice and (f) economic advice.

The very fact that a Financial Advisor is appointed by the Government with powers to report to the Government is a point of irritation. To make things move smoothly, the same procedure, in his appointment, should be followed as in other appointments of the same level. A Financial Advisor should form part of an integrated team of management. To achieve maximum result he should work as a cooperative and loyal member of the team and win the confidence of the Chief Executive by giving him the best and the most honest advice as a disciplined member of his staff. There ought to be mutual confidence, trust and respect between the Chief Executive and other functional heads including the Financial Advisor. There should be ample inter-communication among all the agencies in which the management is centred. It is also necessary that the Chief Executive of a concern should also have a financial bent of mind and commercial outlook, that will greatly
assist him in appreciating the position of a Financial Advisor. Significance of this cooperative venture can be well appreciated if the observations of Mr. Khera are kept in view by all concerned. He observed that (a) that the management of an enterprise is an integrated organic whole; (b) that the management must function with a unity of purpose; (c) that the division of the managerial function in the public enterprise is mainly a matter of convenience but not a reflection of diverse or opposed interests, and (d) that the managerial functions within an enterprise so overlap and intermesh that no one should innocently pretend for himself a 'leave-me-alone' position. A group of items, mainly centred in the economics of the enterprise, is placed in the special charge of the Financial Advisor.

Besides being a financial advisor, he should be an economic adviser to the enterprise, a much more important function. The capital expenditure programme in a public enterprise is quite extensive which in turn imposes greater responsibility on the top management; and it would be absolutely necessary for a Financial Advisor to be able to look into the economics of investment. He has a role to play in respect of the economic viability of the enterprise and he should not be content with responsibility of financial control over the day-to-day operations.

Mr. Ranson\textsuperscript{25} compares a Financial Advisor to the navigator of an aircraft who first helps the captain to plan the course before take-off and then keeps him in touch with the progress of the flight and particularly warns him if he tends to go off course.

There appears to be some welcome change in the thinking of the Government on the issue of appointing Financial Advisors in the public enterprises. The matter came up for discussion at a conference of representatives of public and private sector and others, convened by the Prime Minister of India in June, 1966. Some very useful conclusions regarding Financial Advisors emerged from the wide-ranging discussion that took place at the conference. Some of the important decisions are:

1) Financial Advisors or controllers appointed by Government should learn and be trained to identify themselves with the interests of the undertakings.

2) It would be useful to have persons experienced in financial management in public sector undertakings in the Ministry of Finance; posts in administrative Ministries concerned with public sector undertakings and Bureau of Public Enterprises could be filled on the same analogy. This would make for smoother disposal of business relating to the Public Sector in the Ministries.

3) Particular stress was laid on the appreciation of the place of Management accounting, and the training therefor.

Dr. Chenna Reddy, Union Minister for Steel, Mines and Fuel, expressed that the Government should confine itself to the appointment of Chairman of public undertakings and


\textsuperscript{26} Proceedings of the Conference as reported in Lokudyog March 1967 p.- 51 to 55.
leave other appointments including that of the Financial Advisor to the undertaking. Recently, after his visit to the United Kingdom, where he had gone to visit the nationalized steel industry, in his report suggested that Government should discontinue the practice of appointing the Financial Advisors and leave such appointments to the public enterprises themselves. Further that the public enterprises should develop their own cadre of Financial Advisors so that they do not have to rely on deputationists for providing this important service. He further said that he had already made a start in that direction by appointing one of Hindustan Steel Limited's own employee as Financial Advisor in the Bhilai Steel Plant.

SUMMARY AND CONCLUSION:

From the above it becomes clear that financial control is regarded as sine qua non in the study of financial organisation of a business concern. It is all the more so in the case of public enterprises because of the requirement of 'Public Accountability'. The purpose of public accountability is to satisfy the Government, Parliament and the public regarding the efficacious working of such enterprises.

Financial control may be studied from two stand points—

(1) Internal and (2) External. To establish a sound internal financial control in a business, various tools of management accounting such as budgetary control, standard costing, 2 Econo c T mes dated January 1960, 1.

28 Reported in Lokudyog March 1968, p. 52.
break-even analysis, internal auditing and such other techniques are introduced. The object is to make available to the management quick and reliable information for taking decisions. External financial control embraces public accountability, regularity and efficiency audits and the set up of necessary machinery to supply reliable information to Parliament for making performance evaluation of public enterprises.

Indian public enterprises are found to be deficient in the matter of internal financial control. To improve matters, the application of budgetary control and the operation of internal audit be made more efficient in the case of those enterprises which are making use of these techniques of control. In those enterprises where such modern tools of control are not in application they need to be introduced.

**FINANCIAL ADVISOR:**

Financial Advisor plays a key role in the management of a business enterprise. Therefore, he should be an expert in the areas of financial management and management accounting, because he is charged with the responsibility of preparing budgets and rendering financial and economic advice to the management.

In India, generally, financial advisors have been deputed from Government departments without any experience and training in running business concerns. This policy of the Government did not lead to homogeneous functioning of
the management team.

It is suggested that such officers should not be imported from without. Rather they should be developed and promoted for within the organisation.