

Fourteenth Finance Commission

information system to the Union Government, State Governments and implementing agencies at every level. To this end, **we recommend synergising the efforts of the Union Government and State Governments towards building a technology platform in which their systems can interface and information can be shared, leading to end-to-end linkages, particularly in respect of sector-specific grants from the Union Government to States.**

17.22 The C&AG and CGA, in their presentations, highlighted the importance of internal control systems and internal audits. Many developed countries have made 'risk management' an integral part of their internal audit functioning. The Second Administrative Reforms Commission (2005), in its fourteenth report, recommended setting up an office of Chief Internal Auditor in select ministries and departments, which would report directly to the Secretary of the department, establishing standards for internal audit, and constituting an audit committee in each ministry and department. As these are standard tools for safeguarding government assets and checking the misuse and inefficient use of resources, **we recommend that the Union and State Governments consider the recommendations of the Second Administrative Reforms Commission (submitted in 2009) on internal audit and internal control systems and take a decision on each recommendation expeditiously.**

Pay and Productivity

17.23 Wages and salaries constitute a significant portion of the committed liabilities of both the Union and States. Periodic revisions based on the recommendations of the Pay Commissions of the Union, with States following suit, have contributed to rising revenue expenditure. For States in particular, the fiscal impact of a pay revision is severe, as the share of salary expenditure in their total revenue expenditure is substantially larger than in the case of the Union. Arrears in pay and bi-annual releases of Dearness Allowance compound the burden.

17.24 Technically, the recommendations of a Central Pay Commission are only for Central Government employees and States are not bound to follow suit. Indeed, up to the 1980s, States constituted their own Pay Commissions and prescribed their own pay scales, based upon their fiscal capacity. However, since the Fifth Central Pay Commission, salaries and allowances in States have tended to converge with those in the Union Government and since the Sixth Central Pay Commission, almost all States have adopted the Union pattern of pay scales, albeit with modifications.

17.25 An internal study by the Commission brought out the fact that the Union Government's expenditure on pay and allowances² (including expenditure for the Union Territories) more than doubled for the period 2007-08 to 2012-13, from Rs. 46,230 crore to Rs. 1,08,071 crore.³ This increase can be largely attributed to the implementation of the Sixth Central Pay Commission recommendations, evident from the per employee annual salary (excluding defence salary) increasing from Rs. 1,45,722 to Rs. 3,25,820 over this period. Moreover, the share of expenditure on pay and allowances in revenue expenditure (net of interest payment, pensions and grants-in-aid) increased from 11.8 per cent in 2007-08 to 13.1 per cent in 2012-13. The incidence of salary expenditure is much higher in the States than in the Union. In 2012-13, the share of expenditure on pays and allowances of all employees in the revenue expenditure (net of interest payments

²Excluding productivity linked bonus/ad-hoc bonus, honorarium and encashment of earned leave, and travel allowances.

³If salary of defence services is included, the corresponding figures will be Rs. 73,073 crore and Rs. 1, 84,711 crore.