UNIVERSITY OF LJUBLJANA
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INTERNATIONAL CENTER FOR PROMOTION OF ENTERPRISES

MASTER'S DEGREE THESIS

EFFICIENCY OF INTERNAL FINANCE DIVISIONS (IFDs) IN GOVERNMENT OF INDIA

Ljubljana, September 2008 **ANUGRAHA NARAYANA DAS**

Author's STATEMENT

I, Anugraha Narayana Das hereby certify to be the author of this Master's thesis that was written under mentorship of Prof. Dr. Stanka Setnikar-Canker and in compliance with the Act of Authors' and Related Rights- Para.1, Article 21. I herewith agree this thesis to be published on the website pages of the Faculty of Economics.

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List of Abbreviations

Abbreviation	**Expansion**
ACR	Annual Confidential Roll
AIBP	Accelerated Irrigation Benefit Programme
ARC	Administrative Reforms Commission
AS	Additional Secretary
BPR	Business Process Reengineering
CA	Controller of Accounts
CAG	Comptroller and Auditor General of India
CFO	Chief Finance Officer
CNE	Committee for Nonplan Expenditure
CPM	Corporate Performance Management
CS	Central Sector
CSS	Centrally Sponsored Scheme
CWC	Central Water Commission
DFPR	Delegation of Financial Power Rules
DIR-BT	Director- Budget and Technical
DIR-F	Director-Finance
DoE	Department of Expenditure
DoPT	Department of Personnel and Training
EAP	Externally Aided Projects
EFC	Expenditure Finance Committees
FA	Financial Advisor
FC	Flood Control
FM	Finance Minister
FMM	Financial Management Manual
FRBM	Fiscal responsibility and Budget Management (Act)

Abbreviation	Expansion
FY	Financial Year
GFR	General Financial Regulations
GOI	Government of India
HP	Hydrology Project
IA	Implementing Agency
ICPE	International Center for Promotion of Enterprise
ICT	Information and Communication Technology
IFA	Integrated Financial Advisor
IFD	Internal Finance Division
IIT	Indian Institute of Technology
JBIC	Japan Bank for International Cooperation
JS	Joint Secretary
JS-FA	Joint Secretary- Financial Advisor
KPI	Key Performance Indicator
LS	Loksabha
MI	Minor Irrigation
MMI	Major and Minor Irrigation
MoF	Ministry of Finance
MoWR	Ministry of Water Resources
NGO	Non Government Organization
NIFM	National Institute of Financial Management
OM	Office Memorandum
PAO	Pay and Accounts Office
PB	Performance Budget
PIB	Public Investment Board
PPP	Public Private Partnership
PRI	Panchayati Raj Institution
R&D	Research and development
RS	Rajya Sabha
SFC	Standing Finance Committee
SMD	Subject Matter Division
TAC	Technical Advisory Committee
TPT	Transport
WB	World Bank
X PLAN	Tenth Plan
XI PLAN	Eleventh Plan
ZBB	Zero Based Budgeting

1. Introduction

1.1 Research problem statement

The last thirty years have seen the Indian economy grow from a less developed stage to one of the fastest growing economies of the world.This growth has been the result of well structured economic reforms and conscious policy decisions.The last two decades have witnessed a plethora of reforms in fiscal management of the country.A stage has been reached from where further progress requires a renewed effort.The second-generation reforms are throwing up complex challenges which, inter alia, call for a re-look at some of the institutionalized financial management systems.The institution of Integrated Financial Adviser (IFA) and the Internal Finance Divisions (IFDs) working under the IFA occupies a unique position in the functioning of Government of India. Having served well until now, time has come for it to be brought in sync with the fast changing socioeconomic scenario and attendant attitudes, processes and systems in the governmental functioning.

The system of financial advice and appraisal that has evolved in Government of India derives its basis and structure from the Constitution of India. Prior to independence there was a highly centralized system of financial and administrative controls, in consonance with the regulatory, the policing and the taxation responsibilities of the Government. The functions and the resources at that time were limited. All proposals of the administrative ministries were referred to the finance ministry for financial sanction, as there was little delegation of financial powers to administrative ministries. The duty of the financial advisor was to assist the Governor General in discharge of his special responsibilities for safeguarding the financial stability of the Federal Government. After independence the constitution laid down an elaborate procedure for the Parliament to exercise control over the finances of the Government. With the expanding role of the Government in social and economic sectors the system of financial administration was adopted to meet the new and changing requirements of the administration. The system of financial administration in the central government was reviewed many times and in 1975 the system of Integrated Financial Advisor (IFA) was introduced. It was envisaged that the system would strengthen the financial capabilities of the administrative ministries and empower them to plan and implement their programmes in a more effective manner.

A committee was appointed in 1996 to review the functioning of the IFA system. Report of this committee in November 1996 highlighted that though the system as it operated was an improvement over the earlier financial advice systems, in practice its original objectives have not been quite realized. This was also highlighted in a research study on 'Effectiveness of the Integrated Financial Advisor System in Government of India' made in ICPE Ljublijana (Mohanty Sudhansu ,1988; pp.68-80). This study also recommended some specific steps to be taken to augment the efficacy of the system. Many changes in the existing system have taken place since then in the last ten years and Ministry of Finance (MoF) has taken stringent steps to improve the financial administration in Government of India. Only recently in June-2006 a fresh charter of duties for the IFAs has been prescribed by the Ministry of Finance to improve their accountability and responsibility in supporting the administrative ministries achieve the desired outcomes in the social sectors.The scheme provides that the IFA would be responsible both to the administrative ministry and to the finance ministry. The scheme also briefly indicates the functions of the IFAs along with the modalities for their functioning.

In the recent years, there has also been a major paradigm shift from output orientation to outcomes in public expenditure management. The government has also enforced the Fiscal Responsibility and Budget Management (FRBM) Act, 2004 to bring stringent expenditure control. All these activities have been continuously supplemented by a string of austerity measures prescribed by the finance ministry to improve budget formulation, enforce stringent expenditure control and ensure appropriate preparation of the newly prescribed document i.e. the performance-cum-outcome budget. These developments obviously call for a highly professional and effective finance set up in the administrative ministries manned by officers of an appropriate background to deliver the qualitative outputs expected of them. As brought out in the research study 'Effectiveness of the Integrated Financial Advisor System in Government of India' there is a strong case for developing of specialized skills in IFDs (Mohanty Sudhansu, 1988; p.35). Most importantly the officers working in IFDs need to be sensitized to the extraordinary responsibilities being put on their shoulders. Though provisions exist for capacity building for IFD officers, a systematic management approach for enhancing IFD's efficiency and effectiveness is yet to be developed. The present research study examines these issues. The objective of this thesis is to make an effort to analyse and measure the efficiency and effectiveness of the IFDs vis-à-vis their assigned role and duties and make use of the modern management methods to bring up a framework for enhancing their efficiency and effectiveness through organizational changes, enhancing management skills , capacity building , e-governance and knowledge management etc for achieving the optimum results in the financial administration set up in central ministries of Government of India**.**

1.2 Research questions

a) Is the functioning of the IFDs effective and also efficient ?

b) What steps can be taken to (further) enhance the efficiency and effectiveness of the IFDs ?

1.3 Research objectives

a) To examine the present functioning of the IFDs in terms of targets prescribed vis-à-vis it’s given mandate.

b) To examine the results achieved by the IFDs with respect to targets prescribed specially in respect of the Fiscal Responsibility and Budget Management (FRBM) Act and instructions issued by Ministry of Finance on austerity measures.

c) To examine the results achieved through specific interventions of the IFDs in implementation of prescribed social sector schemes (central sector and state sector) and achievement of desired outcomes.

d) To identify and analyze the constraints experienced by the IFDs in achieving the prescribed and targeted outcomes.

e) To examine the organizational culture of the IFDs.

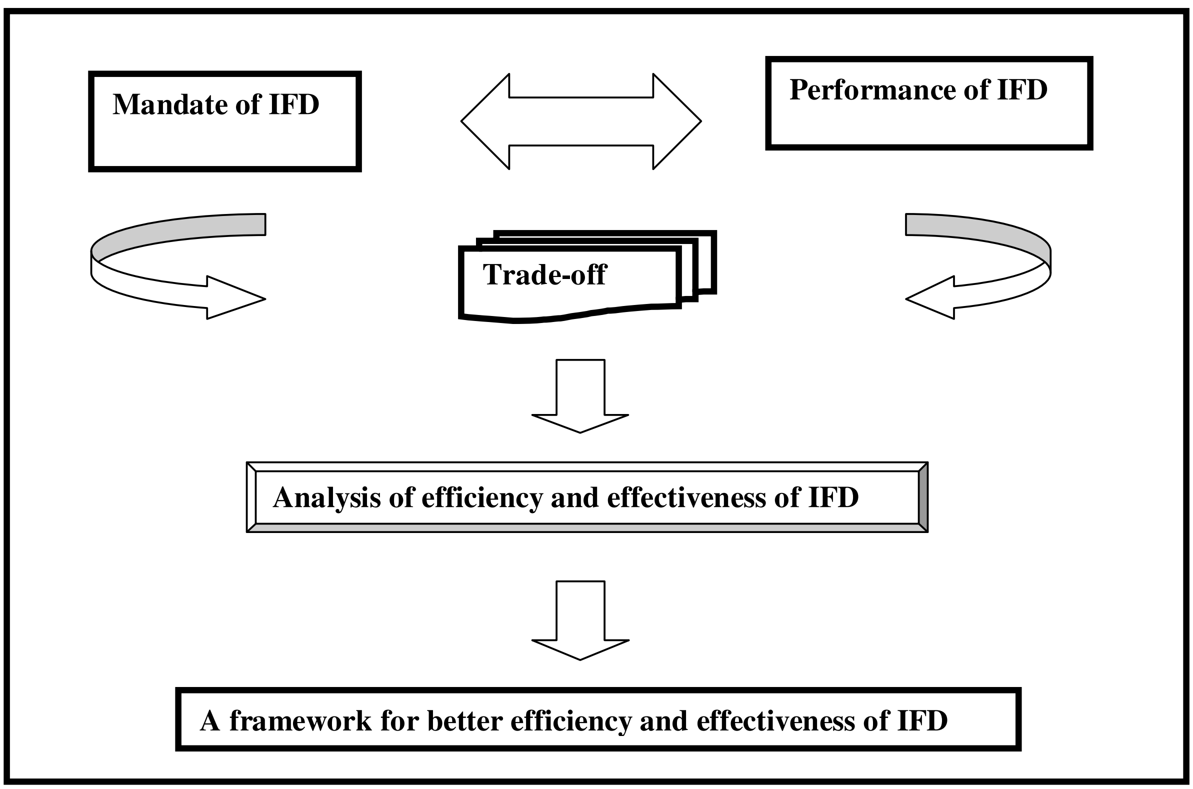
f) To examine and assess the knowledge, information and training need of the staff deployed in IFDs especially in a computerized environment.

g) To develop and suggest a framework for achieving the desired efficiency and effectiveness of IFDs.

1.4 Research model

The Research objectives necessitate an in-depth analysis of the present functioning of the IFD vis-à-vis its mandate. Therefore, it is proposed to develop and suggest a framework for increasing efficiency and effectiveness of IFD in rendering sound financial advice, through application of various management techniques. The Research model is given in Figure.1.1.

Figure.1.1: Schematic Diagram of Research Model



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1.5 Research methodology

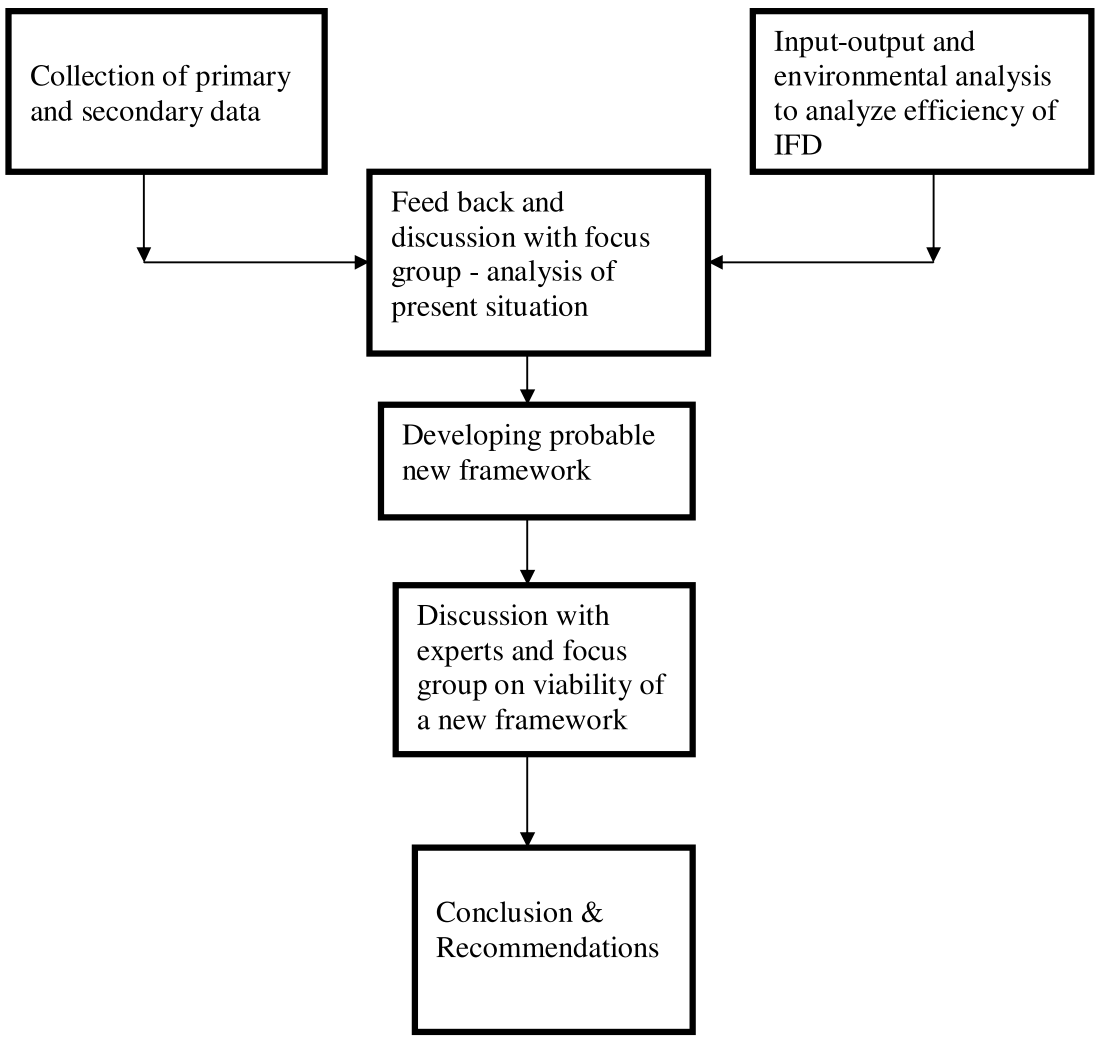
The research objectives stated above will necessitate an in-depth analysis of the present functioning of the Integrated Financial Advisor (IFA) System through the Internal Finance Divisions (IFDs) vis-à-vis their mandate and develop and suggest a framework for increasing the efficiency and effectiveness of IFDs in rendering sound financial advice through application of various management techniques.

The methodology of the thesis consists of systematic approaches to data collection. To begin with, exploratory research has been carried out to find out what is happening; to seek new insights; to ask questions and to assess the phenomenon in a new light. It was particularly useful in deeper understanding of the problem. The focus initially was broad, and narrowed down progressively as the thesis progressed. Accordingly, the first step was developing a theoretical framework based on a detailed literature survey on the subject with the help of relevant books, journals on financial administration in India and various web-sites related to the subject. The second step was examination of the factors responsible for contributing to the efficiency and effectiveness of the IFDs both generally and specifically and also through a case study of the IFD at Ministry of Water Resources. As the efficiency and effectiveness of the set up is dependent on the quantity and quality of manpower available, the analysis of the adequacy of both the factors separately as also in combination was carried out to establish whether the present set up of staff in IFD is as per the requirement or not vis-vis the existing mandate and the increased workload over a period of time. An assessment of the environmental factors as constraints was also carried out to examine how the adequacy of staff and organizational culture has effect on the functioning of IFD. Based on this research a framework has been developed to enhance the efficiency and effectiveness of the IFD. An overview of the methodology of the thesis is given in Fig. 1.1. The research has largely relied on the secondary source of data, mainly from the Government of India publications, documents and records. The research also analyzed the capacity building aspects i.e. training need and the knowledge requirements of the staff posted in IFDs. For this the primary data was collected by focus group interviews through a purposive sampling method. This particular sampling method was used as the sample size is small. Besides the present study in view of its specialized nature also used selected case studies for analysis that are particularly informative.

1.6 Limitations of the thesis

The purpose of this study, an academic exercise, is to understand the concepts of efficiency and effectiveness in management as applied in the public sector specially in the field of financial administration and also to formulate a framework at a policy making level to enhance the existing efficiency level of the Integrated Financial Advisor (IFA) System through the Internal Finance Divisions (IFDs) by application of various management methods. The area of study is very vast and varied as problems faced in different ministries vary due to difference in working conditions and varied objectives at a micro level and as such within the limitations of time and resources it has not been really possible to discuss all the aspects of the system as it operates in IFDs of different ministries of Government of India. In this study most of the analysis for has been carried out from secondary data collected from a number of sources. There have been limitations in obtaining latest and current data for quite a few cases and projections have been used from the past trends to arrive at certain figures.

Fig 1.2: Schematic diagram of methodology



Source: Author

1.7 Structure of the chapters

The thesis has been presented in seven chapters with the bibliography at the end. The first chapter gives brief description of the problem, the purpose of the thesis, methodology adopted, and the limitations of the thesis. The second chapter gives an overview through a detailed literature review of the historical perspective of steps taken to improve efficiency and effectiveness of financial management and administration of the public sector in India. The third chapter presents an over view of the Integrated Financial Advisor (IFA) System as it was envisaged during its initial formulation and the latest developments detailing the mandate for the IFA and the IFD. The fourth chapter deals with the experiences of working of the Integrated Financial Advisor (IFA) System and the IFDs in the central ministries of Government of India vis-à-vis the mandate along with the constraints faced by IFDs. The fifth chapter provides an analysis of the experiences of working of the Integrated Financial Advisor (IFA) System in detail with respect to specific case studies of the IFD-MoWR. The sixth chapter presents the findings of the study and finally the seventh chapter presents the conclusions and recommendations.

2. History of financial administration in India

2.1 Recent developments in financial management

Financial management in a developing economy like India has to be seen in the context of fiscal challenges. Good financial management includes both collections of sufficient resources from the economy in an appropriate manner as also allocating and use of these resources efficiently and effectively. Public expenditure management is only one of the two instruments of fiscal policies. The other one being, generating sufficient resources for carrying on the activities of the government without impairing incentive for higher productivity and income generation. Good expenditure management calls for expenditure control, allocation of resources according to policy priorities and good operational management. Good operational management in which minimizing cost per unit of output and achieving the outcome for which outputs are intended. Optimal resource allocation involves distribution among programmes on the basis of priorities determined at the policy level, which should get reflected in the budget.

For a long time, financial management in developing countries was viewed as a process that enabled central agencies like a ministry/department of finance to keep "spending agencies under control through continuous review and specification of inputs and verification of documents, submitted for payment. As an extension of this approach, financial management was viewed as being restricted to budget implementation, administration of payments systems, accounting and reporting in the states of funds received and spent. This approach with a long lineage continues to be prevalent even now, though in a declining scale (Premchand, 2005; p.5)

Reforms in financial management have concentrated on the use of government budget as a vehicle for economic development, through improved budget classification system. Cost benefit analysis technique was also applied. From the 1970s the need for containment of fiscal deficits through tightened fiscal management, pre-occupied the economists. In the 1980s the management approach came to be prevalent, which included a corporate type of financial management within an overall framework of accountability. The overall assessment is that, system of financial management in developing countries has generally been slow in adopting itself to changing requirements. Basically, there has been a segmented approach at reforms. There is also a perception of considerable waste of public money.

In India, the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 (http//www.finmin.nic.in) provided statutory mandate and lent credibility to fiscal reforms process. Both the fiscal deficit and revenue deficit has come down since then to manageable proportion, opening a great opportunity to bring in much needed reforms in expenditure management by introducing expenditure planning and budget management. These would, however, require practical and institutional support and statutory mandate. If determined efforts are not made now to put these reforms in place, then there may not be optimum utilization of resources and fiscal imbalances may again develop due to profligacy in expenditure, nullifying the efforts made through the FRBM Act, to improve fiscal management.

However, it may not be enough to achieve effectiveness in government spending i.e. to achieve value for money. The effectiveness in government spending cannot be brought about only by reforming the fiscal system.It is to be seen whether the civil service who is responsible for the financial management system in government is oriented towards achieving efficiency and effectiveness. There has to be a management outlook for the civil servants who are responsible for managing government expenditure. Change in a budget format or in the budgetary process may induce some changes in outlook and decision making, but may not be adequate to bring about the necessary behavioral changes which would enable achieving value for money.This point was underlined by the appointment of the Treasury and Civil Services Committee by UK Government in early eighties which reported on "Efficiency and Effectiveness in Civil Service" in 1981.The committee which concentrated its attention on Civil Service, concluded in that "there is no clear orientation towards the achievement of effectiveness and efficiency at the higher level of Civil Service or in the government generally" and that while there was a commendable concern with economy in the use of resources, the committee observed there were too few attempts to set operational objectives, measure aspects and results, and hence guide proper use of resources. For this, the committee concluded, government has to have a policy aimed at inculcating a spirit of good management in civil service. This policy, if properly implemented, could be the key to securing efficiency and effectiveness in spending. An environment has to be created which is conducive to good management and to set and attain particular management targets. This demands critical examination of the continuing need for activities, functions and policies as well as their costs. After commending the steps taking by the UK Government towards achieving economy – control of public expenditure, the committee came to the conclusion that the time had come for a general and coordinated drive to improve financial management in government departments. The committee felt that the civil servants, who take decisions about deployment and use of money and staff, should be treated as managers to serve the objectives of good financial management. The main objective was to promote in each department an organization and system in which managers at all levels should have the following attributes.(Treasury & Civil Service Committee,1981; Appendix)

(i) A clear view of the objectives; and assess and wherever possible measure outputs or performance, in relation to these objectives;

(ii) A well defined responsibility for making best use of these resources and making critical scrutiny of output and value for money;

(iii) The information, particularly about costs, training and access to expert advice which they need to exercise their responsibilities effectively.

These initiatives to improve financial management was adopted by the government for bringing in better sense of accountability for the civil servants in the management of resources. The above principles were considered by the committee to be fundamental for good management and effective use of resources and should apply to the maximum extent possible.They felt that the principles set out above, apply to all areas of departmental work, whether it was advice or policy, execution of policy or a specialist or a staff function.They, particularly stressed that in the quest for good financial management, the responsibility for managers should be specified systematically for the control of resources they consume and, wherever feasible, the results they are to achieve. It recommended that each department should therefore, examine the scope of breaking down its structure down to cost-centres or responsibility centres to which resource costs can be allocated and for which, where appropriate measures of output can be devised and monitored.

The adoption by the UK of the principles of management recommended by the committee on efficiency & effectiveness mentioned above, also led to the creation subsequently of next step agencies to carry out execution functions of government, which is considered as 'the most significant administration reform of the second half of the twentieth century in British central government.'(Richard A. Chapman, 1997; p.105).It had its immediate origin in the 1988 Report to the UK Prime Minister from the Efficiency Unit entitled “Improving Management in Government: The Next Steps". The Next Step project was launched in 1988 with the intention of separating policy advice function of government departments from the service delivery function. By the end of 1990s majority of UK civil servants were working for semi-autonomous executive agencies responsible for service delivery. In Indian context the report of the Administrative Reforms Committee also highlighted that good financial management is inseparable from good management.

In this background, initiatives taken recently for improvement in public expenditure management by the Ministry of Finance as indicated in the demi-official letter of December 2006 by the secretary, department of expenditure to secretaries of administrative departments needs to be mentioned. The most important initiative, which is mentioned, first, is the revised charter for financial advisor with a view to redefine their role, responsibilities and accountability, authority and facilitate capacity building. However, before embarking further on the process of analysis of the effectiveness and efficiency of the financial administration system in India, it will be in the fitness of things to examine the constitutional articles and also the detailed historical developments of the IFA system as traced in the literatures.

2.2 Constitutional provisions

The system of financial advice and appraisal that has evolved in Government of India derives its basis and structure from the Constitution of India.Under the Constitution of India promulgated in 1950, Articles 112-117 regulates the procedure for financial matters in respect of central government.(Basu D.D, 1996)

Article 112 provides for an annual financial statement to be laid before both the Houses of Parliament. This is a statement of the estimated receipts and expenditure of the Government of India for that year.

Article 113 outlines the procedure in Parliament with respect to estimates and provides that expenditure charged upon the consolidated fund of India shall not be submitted to the vote of the Loksabha (the lower house of the Parliament) , although there is no objection to the to the discussion thereon in either House of the Parliament. The voted portion of the estimates of the expenditure is to be submitted in the forms of demand for grants to the Loksabha. The House has the power to assent or to refuse to assent , to any demand, or to assent to any demand subject to reduction of the amount specified therein.No demand for a grant can be presented to the Parliament for approval except on the recommendation of the president.

Article 114 provides for introduction of a bill to provide for appropriation out of the consolidated fund of India of all the moneys required to meet the grants approved by the Lok Sabha and also the charged expenditure. No money can be withdrawn from the consolidated fund of India except under the appropriation made by law passed in accordance with the provisions of this Article.

Article 115 provides for supplementary, additional or excess grants in respect of expenditure for new services not contemplated in the annual financial statement.

Article 116 provides for votes on account, votes of credit and exceptional grants to cover expenditure for a part of any financial year pending completion of the procedure prescribed for voting of such a grant and passing of law in relation to that expenditure.

Article 117 provides for the introduction of financial bills and limits the introduction of such bills only in loksabha. No such bill can be passed unless the President has recommended the consideration of the bill .

2.3 History of financial administration in India

The objectives of the British Indian administration entailed that the financial administration worked through financial controls exercised by a central finance department.

In the absence of any arrangement for internal financial scrutiny, various departments of the Government always looked to the finance department for advice in financial matters. This system continued until the 1930s. The installation of the popular provincial governments after the Government of India act of 1935 in 1937 provided changes in the administrative system with greater involvement of the provincial governments. However, in the central government such an arrangement continued until the independence.

During the British rule, the Indian system of public financial management was based on the pattern of treasury control prevalent in England in procedural and policy matters relating to the rules, regulations, codes and procedures, compilation of annual budget, audit and accounts. A Comptroller and Auditor General was appointed in India 1860. In the absence of a Government accountable to the legislature, he submitted his annual reports to the Secretary of State for India in England. The annual budget including the demands for grants, the appropriation accounts and taxation proposals were passed with the approval of Governor General instead of the same being passed by the legislature as was the practice prevalent in England. From 1921 onwards the central legislative assembly was given the right to discuss and pass the annual budget. The Governor General was empowered to certify the financial proposals in the event of their rejection by the legislature.

In spite of the direct rule of the British, the Indian public financial management system did not keep pace with the new trends in British and world financial system. For instance, in the twenties in England there was a movement away from a stringent itemized scrutiny of departmental expenditure within the scope and amount of voted appropriation. Departmental responsibility, for detailed expenditure control to utilize appropriations in an efficient manner was introduced. Such innovations were not introduced in India. Nevertheless, the British rule took the credit to introduce changes in the financial system in India soon. In the aftermath of World War II with economic restructuring all over the world, it was felt necessary to reorganize the Government machinery to meet the needs of the post war reconstruction.

Richard Tottenham in 1945 was deputed to recommend the organization of departments and the possible re-allocation of departmental business. Tottenham observed in his interim report that the then existing system of day to day control by the finance department tended to blunt the financial conscience of the spending department and that most secretaries of the Government held the view that the existing system of financial control was too meticulous. In his final report submitted to the Governor in March 1946, Tottenham made the following recommendations and observations. (Tottenham Richard, 1955; p.39)

a) The requirement of detailed treasury sanction involved a good deal of wastage of time and efforts at both ends.

b) An average secretary disliked any suggestion that the views of the finance department on any particular point must necessarily be accepted; He is much readier to accept advice rather than dictation.

c) He resents having his proposal whittled down for no apparent reason except to save a certain amount of money.

d) Whenever the quantum of work justified it, a spending department should have a FA of its own. He should be trained but should be regarded more as an officer of the department in question than as a watch dog of the finance department.

It was concluded that the system of itemized financial control through the Ministry of Finance was proving inadequate as it led to a considerable delay in the matter of formulation and execution of schemes. However, no decision was taken by the Government of India on the reports of Richard Tottenham primarily due to the constitutional changes that were in the offing.

After independence the task of reorganization of machinery of government was entrusted to Shri N. Gopalaswamy Ayyangar who was then the Minister of Transport. In the report submitted by him in November 1949, he discussed the need for improvement in the machinery and procedure governing financial sanctions and control of expenditure. He talked of the Ministry of Finance being unwieldy with too much of centralization. As a result, apart from being responsible for the general financial policy of the government it had to concern itself with every detail of the execution of the proposals (N. Gopalaswamy Ayyangar, 1949; p.29-31).He emphasized the need for a review to be undertaken so that a more effective delegation of powers of expenditure sanction can be affected at different levels. He proposed that instead of an elaborate and vexatious system of itemized control the ultimate responsibility for both economy and efficiency must be placed squarely on the shoulders of the administrative departments. He recommended introduction of a system of bulk control of expenditure with financial controls by a FA.

Another committee ‘The Secretarial Reorganization Committee’ had, in its report submitted in August 1947 commented on the problem of delay in transaction of government business. He had recommended the appointment of an officer of the rank of joint secretary tendering financial advice to the secretary. In 1951, the cabinet though in agreement with the objectives stated in both the reports, did not agree for the appointment of FA.

In his report on public administration made to the planning commission in 1951, A.D. Gorwalla was critical of the organizational defects that strained relationship between the administrative ministries and the finance ministry. The finance ministry had pointed out that it centralizes in itself the power of sanction and even for a small amount of expenditure, the administrative departments have to go to the finance ministry. This procedure of constant reference often led to cancellation of the proposal as the referring officer tired him out. Gorwalla opined that the possibility of enlarged delegation should be investigated. He emphasized on the specific skills and experience required by officer posted in the Ministry of Finance. He reiterated that what is required in financial matter is control and not interference (Gorwalla .A.D, 1951; p.42).

Despite the recommendations of these committees perhaps the government was slow to react, and it was only after Paul H. Appleby submitted a report that things started moving. He drew attention to the astonishing lack of capacity and/or facilities for administrative delegation in the then existing structure. He deprecated too much control of details, too much preoccupation with saving rupees and too little with larger effectiveness. He felt that the expenditure control was used to far too great an extent as a substitute of entering financial discipline by making the actual budget after the proposals were presented to and approved by the Parliament. He noted that in the absence of delegation, there is too much preoccupation with details, leading to less effectiveness. He observed a gap between persons taking financial decisions and those who are responsible for implementing the program at the field level (Paul H. Appleby, 1953; p.7).

Following this report, a delegation of minor powers took place in 1953-54.This round of delegation proved to be of a very piece meal nature as the Ministry of Finance felt that the system of central financial control had been of a great help in achieving economy in expenditure, and it had also provided for a unified financial policy, allocation of priorities and coordination in their execution. The adoption of the system of internal FA was stalled surprisingly on the plea of the shortage of experienced finance officers. Since the Ministry of Finance had an overall financial responsibility to ensure the economical use of available resources and the avoidance of wastage and extravagance on ill conceived schemes it felt it could not divest itself of this responsibility in the context of the then prevailing economic conditions.

The Estimates Committee in their ninth report, submitted in 1954 called for increased delegation of financial powers on the grounds that the nature of governance has undergone a change since independence. Emphasizing the sovereignty of the Parliament and the complexity of the administrative machinery the Estimates Committee felt that the developmental needs of the country could not be left only with Ministry of Finance. The Committee felt that a realistic view of things should be taken and a procedure evolved which defines clearly the functions of each component involved in spending public money and ensures that the authority concern is accountable for its action. This committee also highlighted the need for internal financial advice so that the line ministries could spend money in accordance with the general principals and the rules and regulations lay down from time to time. It was suggested that each secretary should be assisted by one deputy or joint secretary on the financial side (Estimates Committee, 1953-54; p.3-4)

It is during this period that the preparations for the Second Five Year Plan started. The preparatory documents for the Second Five Year Plan laid stress on the gearing up of the administrative machinery to contribute its very best to achievement of efficiency and economy. The plan documents emphasized the need for greater delegation of responsibilities to various levels of governmental organization and functionaries in the interest of speedy disposal of work and quick execution of works (Planning Commission, 1956; p.132-136).

It is in this background, A.K. Chanda the then Secretary, Ministry of Production, was requested to examine the position and to suggest measures for administrative reorganization and financial /budgetary reforms. He suggested that broad and overall scrutiny should be located in the finance ministry whereas detailed scrutiny should be entrusted to the respective departments. Later as the Comptroller and Auditor General of India, A.K.Chanda set out his recommendations in his ' Note on estimates and Financial Control' prepared by him at the request of the Public Accounts Committee. He noted that the Plans and the Estimates drawn up by the departments initially while formulating the schemes were incomplete in financial details due to lack of technical and financial experience. The finance ministry, which should satisfy itself that the schemes were sound and fulfilled their objectives, could not make a complete scrutiny in the first instance when the schemes were accepted for inclusion in the budget. As a result the administrative department had to approach the finance ministry at various stages with different cases for concurrence and sanction. This caused considerable delays in terms of project implementation. The loss was enormous in terms of time and cost overruns. He suggested that the departments should be provided with internal FAs drawn from the panel of officers with financial experience as approved by the Ministry of Finance and these officers should be entrusted with delegation of authority, wherever necessary (Chanda A.K., Audit Report, 1955-56).

The Cabinet agreed to the scheme of internal FAs on an experimental basis in the Ministry of Rehabilitation, Food Wing of the Ministry of Agriculture, Supply Wing of Ministry of Works Housing and Supply, Ministry of Irrigation and Power and Ministry of Communication. The appointment of the internal FAs was to be done in consultation with the Finance Minister. The FA's responsibilities were as follows-

a) Furnish internal scrutiny and advice.

b) Watch the progress of expenditure ; and

c) Maintain accounts when that responsibility is passed on to the administrative ministry.

All matters of disagreement between the secretary and the internal FA were to be referred to the Ministry of Finance. The Ministry of Finance thus still managed to maintain its hegemonic position on other ministries.

A review of the experiment conducted in 1956 found the scheme successful and argued for its continuance. It was decided to extend the scheme, subject to availability of officers of requisite caliber and experience and the development of right attitude and conventions in the administrative ministries towards the FA. The scheme was viewed successful although the FA enjoyed no special financial powers other than those delegated to the other line Ministries. His role was limited to the scrutiny of financial proposals. The proposals falling outside the Ministries' financial powers still required reference to Ministry of Finance. In this context a new line of thinking developed within Ministry of Finance which was in favor of trying an alternative scheme of "attached" finance under which the FAs attached to the Ministries would be available to them for financial advice from the very inception of a scheme or proposal. This thinking was given a practical shape by the new Finance Minister TT Krishnamachari. The FAs within this scheme were to be borne on the cadre of Ministry of Finance and were to be under its administrative control. They were supposed to give advice with a touch of finality, obviating any further reference to or scrutiny by any other officer of the Ministry of Finance. The "attached" finance scheme was contemplated to reorient the role of Ministry of Finance from one of the regulation to that of positive advice and assistance. It was recognized that this new scheme was a make-shift one as it was supposed to give training to officers who eventually would function as FAs. The success of this new arrangement was to depend largely on the spirit in which it worked. The main features of the new scheme were as follows.

a. Heads of expenditure divisions in the department of expenditure were designated as FAs;

b. Ministries were requested to ensure that the FA was consulted from the very inception of the scheme;

c. FA was to constantly monitor the progress of expenditure on various projects and schemes.

The "attached" finance scheme did not go far enough as it did not provide for any larger delegation of powers to the ministries than those already enjoyed by them. The scheme was reviewed after one year of its working and following important recommendations were made: (a) most of the ministries preferred a combination of internal and external finance, to ward off delays. It was, however, felt that the function of the FAs should be enlarged and clearly defined (b) the secretary of the ministry should be given authority to overrule advice given by the internal FA.

Even the modified scheme of 1958 did not adequately solve the basic problems of the efficient internal financial control since the finance officers worked in a dual capacity. The difference between the internal and external finance got blurred. The officers of the administrative ministries looked upon the scheme as centralized control by the Ministry of Finance in a new garb. For want of fuller confidence in the FAs on the part of the administrative ministries, the lack of psychological integration of the FAs with the ministries as result of their being borne on finance ministry cadre and inadequate exchange of officers, impeded the achievement of the full benefits of the Scheme. The presence of external finance thwarted the development of financial responsibility within the line ministry.

Developments in other fields accompanied developments in the field of decentralization of financial powers in 1962, 1966 and 1968. Accordingly, modifications in the internal finance scheme were introduced from time to time. It was felt that too much of the time of FAs was being spent on the routine cases and on establishment matters. As a result of this the more important budget references and other expenditure proposals, particularly relating to projects/schemes were being neglected. In the 1962 scheme therefore, greater delegation of powers was made to the ministries in case of establishment matters. The internal FA and the Ministry of Finance were supposed to be consulted only on major matters.

The administrative ministries were to reorganize their finance, budget and accounts sections suitably to work on the new scheme in an efficient manner and to make arrangements for watching the progress of expenditure and controlling it concerning appropriation. It was also laid down that the procedure for consultation with the FA should be made by the ministry itself and the procedure for overruling the advice tendered by the FA should be given up. The process of endorsing was also dispensed with. The ministries were asked to equip themselves with competent work study units to examine all proposals relating to staff reorganization or creation of posts and conduct work study before submitting their recommendations. The work study units were supposed to function under the FA.

The 1962 scheme did not result in any structural changes. The deputy/assistant FAs of the Ministry of Finance continued to render internal financial advice also, within the delegated fields whenever such advice was called for, except in few selected ministries, like Home, Irrigation and Power, External Affairs, Labour and Employment. No formal orders or instructions were issued by most of the ministries about the field of consultation or the procedure for such a consultation with internal FAs; nor did the finance ministry issue any model rules for adoption by the ministries. The procedure therefore remained fluid; it was left to the branch officers to consult their internal finance in such cases as they felt appropriate. The volume and nature of internal financial advice therefore differed from a ministry to ministry. The fact remains that this system did not mean any real change in the nature of financial advice over the previous system and indirectly placed a curb on the powers of the administrative ministries.

Some of the earlier ad-hocism were sought to be checked by the fresh round of delegation which came about in 1968. The Ministry of Finance made it clear that the appointment of a whole time FA was being made obligatory with the objective of enabling them to discharge more efficiently their allotted financial role in matters like budget control, overall expenditure etc. Control was related more to the efficient functioning of existing staff rather than to the augmentation of numerical strength. Ministries were free to appoint FA's of their own choice but, where they wished to be guided by the advice of the Ministry of Finance in the matter of selection of FAs, Ministry of Finance was ready to help. The FA was supposed to be consulted in all cases, before exercise of delegated powers, although it was open to the administrative secretary to overrule his advice by an order in writing.

The basic objective of the 1968 scheme was to quicken the implementation of the development plans and to ensure that the performance targets were adhered to. However, the internal finance arrangements did not work out as anticipated. Many of the internal FAs required training in internal finance work. The provision in the scheme that all cases howsoever routine and all sanctions requiring the approval of finance ministry must be routed to and fro through internal FAs acted as a great bottleneck. Thus the new system tended to act as a wheel within a wheel and a sense of frustration developed in ministries where it was detected whether the old arrangement of combined internal and external finance was better. There was some rethinking in the finance ministry also to ensure that the FAs were selected with their approval so that only officers having a proper background were appointed. However, all this had to await a proper systematic review and a fresh reference to the Cabinet. As it is the institution of FAs did not seem to have attained the objective that had been set out. The status and role of FAs within the framework of relationship between the administrative ministry and the finance ministry was still not clear.

These developments preceded the introduction of the scheme of integrated financial advice. What is to be appreciated is that there was a movement away from a centralized system of financial control to a more delegated nature of control within the developmental needs in general and the needs of financial administration in particular. The system of integrated FA was introduced in 1974 on an experimental basis in the Ministry of Shipping and Transport. On 18th August, 1973, the Secretary, of the Ministry of Shipping and Transport wrote to the Secretary-Expenditure that though under the 1968 scheme of delegation of financial powers to ministries, a senior officer of the rank of deputy secretary, with a finance background, was posted to an administrative ministry as internal FA, his capabilities and time were under-utilized and cases were examined afresh from assistant's level upwards in the finance ministry before a decision is taken normally by the FA of a joint secretary's status. The finance ministry considered the proposal of the administrative ministry of Shipping & Transport for having a more senior officer than a deputy FA as internal FA with powers of the finance ministry except in reserved areas, and that he should become more familiar with the ministry he is dealing with, to enable him to play a more effective and constructive role in its developmental activities than done so by the FA under the 1968 scheme. It was decided to introduce with effect from 27 May 1974, on an experimental basis, a system of integrated finance. Under the new scheme, the integrated FA was to be both internal as well as external FA. He would be consulted as an internal FA in the exercise of powers delegated to the ministry under the Delegation of Financial Powers Rules (DFPR) 1958, and will act as external FA in respect of matters outside the competence of the ministry. The integrated FA will be of the rank of joint secretary/ additional secretary. He would be consulted in all cases before the exercise of the delegated powers. It will, however, be open to the administrative secretary to overrule his advice by an order in wiring as at present provided under the scheme of internal financial adviser. In matters beyond the powers delegated to the ministry, the integrated FA shall have a right of access to the Ministry of Finance and the Finance Minister through the Secretary, Ministry of Finance.

3. The Integrated Financial Advice System

3.1 Objectives of the scheme

In pursuance of the policy to delegate enhanced financial powers to the administrative ministries to match their responsibilities and to improve their competence in the field of financial management by developing appropriate internal attitudes and skills, the functions of the associate financial adviser and the internal financial adviser were integrated in a single official forming part of the administrative ministry, so that the financial adviser could be associated with the administrative ministry in a larger measure to enable him to play a more effective and constructive role in its developmental activities and bring his financial expertise to bear in assisting the secretary of the administrative ministry and other senior officers in the planning, programming, budgeting, monitoring and evaluation functions of the ministry.

3.2 Details of the scheme

a. The post of associate FA in the department of expenditure of finance ministry and internal FA in the administrative ministry was amalgamated and a single integrated FA of the rank of joint secretary/ additional secretary for the ministry was envisaged who was to be a part of the ministry itself.

b. The integrated FA was selected jointly by the administrative ministry and the finance ministry, although he was under the control of the administrative ministry which appoints him. The assessment of his performance (i.e. the writing of the annual confidential report) was to be made jointly by the administrative ministry and the finance ministry.

c. The officers working in the integrated finance division were required to have a background and training in finance and accounts and were to be appointed in consultation with the FA.

d. FA and his staff functioned from the administrative ministry, and they were, as far as possible to have their office located in that ministry's building.

e. The integrated FA has to be consulted in all cases before the exercise of the delegated powers. It is, however open to the administrative secretary to overrule his advice by an order in writing as provided under the scheme of internal financial adviser. In matters beyond the powers delegated to the ministry, the integrated FA is responsible to and has the right of access to the finance ministry and to the Finance Minister through the Secretary (Expenditure)/ Finance Secretary.

f. If any important change in the duties and functions of integrated FA is contemplated, approval of the Ministry of Finance is necessary.

g. The scheme was introduced in three phases;

    i. In the first phase, the associate finance set up of the department of expenditure was placed under the secretary of the administrative ministry along with the FA.

    ii. In the second phase, there was to be a complete integration of associate finance and internal finance wings under the integrated FA and the working of the division, as a whole was to be streamlined and rationalized to avoid any overlapping of functions.

    iii. In the third phase, the integrated finance division was to switch over to the desk officer system as quickly as possible. This system applied to financial advice functions. The accounts and budget work was continued to be handled under the conventional system with suitable adaptations.

h. On the introduction of the system, not only the financial adviser but also the next officer below him of the level of director/ deputy Secretary simultaneously dealt with both internal and associate finance functions.

3.3 Guiding principles of the scheme

Under the new scheme, the accounts and finance were to form an integral part of overall management and to play a more meaningful and effective role in selecting projects, allocation of funds, monitoring of expenditure and evaluation of resources. Administrative ministries had to take full responsibility for arranging payments and timely compilation and rendering of accounts. Integration of accounts with management facilitates timely receipt of information on the progress of receipts and expenditure enables a proper analysis of receipts and expenditure trends. Under this scheme, the secretary of the department/ ministry is to function as the Chief Accounting Officer (CAO) and discharge this responsibility through and with the assistance of the integrated FA in the ministry. All this were envisaged under the overall perspective of a substantial delegation. The integrated FA was responsible in its dual role to the administrative ministry and the finance ministry. It was perceived that it will become possible for a whole time FA to play a constructive and effective role in planning, budgeting, monitoring and evaluating schemes and programs.

3.4 Role and functions of the IFA and IFD : 1976

In the new scheme introduced in 1976, the financial adviser was responsible both to the administrative ministry and to the finance ministry. With his assistance, the administrative ministry could freely exercise the enhanced powers. Outside the scope of the delegations, he was to function under the general guidance of the finance ministry. He assists in budget formulation, scrutiny of projects and programs for approval by the finance ministry and post-budget vigilance to ensure that there are neither considerable short falls in expenditure nor unforeseen excesses for which provision has not been made either in the original budget or in the revised estimates. The FA has to be associated with the formulation of schemes from the initial stages. The FA is also to be responsible for the preparation of the ministry's performance budget and the monitoring of progress of schemes against the budget. The maintenance of an efficient accounting system is necessary for this purpose. The responsibilities and functions of the budget division of department of economic affairs, plan finance division, public investment board, the expenditure finance committee, the establishment division and the staff inspection unit of the department of expenditure were not affected by the new scheme. In the first instance, the scheme was introduced in the ministries and departments like Health & Family Planning Works & Housing; External Affairs;

Education & Social Welfare; Information & Broadcasting; Science & Technology and Shipping & Transport. Certain changes became necessary in the organizational structure in the administrative ministries and in the department of expenditure involving creation/ abolition of some posts and transfer of personnel from the department of expenditure to the administrative ministries along with the work and details of the revised organizational structure. The need for formation of centralized or decentralized, single or multiple level cadres of finance and accounts and the scheme for absorption of the existing associate finance staff in such cadres needed further consideration. To begin with, the officers and staff working in the associate finance division in the department of expenditure were transferred to the administrative ministries according to requirements as on deputation/loan/transfer basis according to the service to which they belonged. In between 1976-77, the posts of integrated FA were created in all civil ministries and in the department of defense production, defense supplies and the D.R.D.O. The excluded departments were law, justice and company affairs, parliamentary affairs, planning commission, department of electronics, department of statistics, cabinet secretariat, and President's secretariat, Prime Minister's secretariat, Lok Sabha and Rajya Sabha secretariat, Vice President's secretariat and the Supreme Court.

Under the scheme of integrated FA, the IFA is to assist in budget formulation, scrutiny of projects and programs for approval by the finance ministry; and post- budget vigilance to ensure that there are no considerable short falls or including those excess for which provisions have not been made either in the original budget or in the revised estimates. His association with schemes and projects since inception is to cover cost/budgetary aspects. He is responsible to ensure the efficient functioning of the accounting system so that it can play a supportive role to the finance wing. Thus the IFA and his IFD were made responsible for the following functions.

a) To conduct a thorough scrutiny of the budget proposals before their inclusion in the Annual Budget and also scrutinize all expenditure proposals.

b) The preparation of the budget (including foreign exchange budget) of the ministry according to the time schedule lay down by the finance ministry and any other instructions lay down by the finance ministry in this regard.

c) The distribution of budget allocations to the various departments, wings and other formations of the ministry and screen proposals for supplementary demands for grants.

d) To advise the administrative ministry on all matters falling within the field of delegated expenditures, except expenditures of the Head of Office.

e) To keep him closely associated with the formulation of schemes and important expenditure proposals from their initial stages.

f) To screen all expenditure proposals required to be referred to the finance ministry for concurrence/ comments.

g) To associate him with the evaluation of projects/performance in the case of projects and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation.

h) To ensure regular and timely submission of quarterly staff statements and other reports and returns required by finance ministry.

i) To arrange payments directly to the autonomous bodies, organization and other authorities of grant-in-aid, loans etc; as may be sanctioned by the administrative ministry.

j) To arrange payments through pay and accounts officer under him in various regions of the country, of pay and allowances, office contingencies, miscellaneous payments, all admissible loans and advances to government servants, including provident fund claims in accordance with prescribed financial and treasury procedure.

k) The compilation and consolidation of the accounts of the department/ministry in accordance with the instructions issued by the central government and / or the Comptroller and Auditor General of India.

l) The preparation of appropriation accounts for the grants controlled by the ministry which are signed by the secretary as the chief accounting authority and are submitted to the budget division and the Accountant General- Central Revenues (AGCR).

m) To ensure proper maintenance of the register of liabilities and commitments as required under the General Financial Rules (GFR) to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.

n) To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary control registers and to issue timely warning to controlling authorities where the progress of expenditure is not even.

o) To identify, in particular, specific savings in cases of creation of posts and to maintain a register for this purpose.

p) To scrutinize proposals for re-delegation of powers to sanctioning expenditure to subordinate authorities.

q) Introduction of a system of management accounting to suit the functions and requirements of the department/ ministry.

r) The installation of a sound system of internal inspection within the department to ensure both accuracy in accounts and efficiency in operation as an art of management.

s) To watch the settlement of audit objections, inspection reports, draft audit paras etc.

t) To ensure prompt action on audit reports and appropriation accounts and report of Estimates Committee and Committee on Public Undertakings.

u) Overview the functioning of the internal work study and O&M Units of the ministry so that he may be able to ensure both economy and efficiency in the transaction of the work of the ministry.

The new scheme was accompanied by further delegation of powers in subsequent years. The idea of delegation was to leave the top management to crucial managerial issues of planning, organizing and coordinating so that the operating and intermediate levels have enough elbow room for performing specific tasks of operation and supervision entrusted to them.

3.5 Role and functions of the IFA and IFD: 2006

The last thirty years since introduction of the scheme of integrated FA have seen the Indian economy grow from a less developed stage to one of the fastest growing economies of the world. This growth has been the result of well structured economic reforms and conscious policy decisions. The last two decades have witnessed a plethora of reforms in monetary and fiscal management of the country. Ministry of Finance has internally reviewed the scheme in this context, and redefined the charter for the FAs in June, 2006 as outlined below.

The overarching concept in redefining the charter for FAs is that FAs are meant to assist in the achievement of objectives/goals of their respective administrative ministries, as approved by the competent authority; and that they must commit themselves to facilitate implementation of the approved programmes, with due financial prudence, to ensure that monies allocated are spent on time, in the prescribed manner, to achieve the intended outcomes defined in measurable and monitorable terms. Assisting administrative ministries in ensuring 'value for money' would be a key objective for FAs, with emphasis on improving the quality of expenditure and requisite systemic improvements/capacity building for this purpose. The redefined charter reiterates that FAs represent the finance ministry in regard to all financial matters.

The role of FA is now conceived to be akin to the role of the Chief Financial Officer (CFO) in a corporate structure, with specific responsibilities for ensuring fiscal prudence and sound financial management. They are expected to bring about requisite financial expertise, and overall perspective of financial management of the Government, as enunciated by the finance ministry, in rendering professional advice to the secretaries of the administrative ministries on all matters which have financial implications.

As per the latest instructions, in rendering their advice, the FAs would be expected to accord priority to macro management, and not allow micro issues of a routine nature to come in the way of achieving the outcomes set by the ministries as goals for themselves. These macro issues could include schematic appraisal and concept functions, revenue management, subsidy management, fiscal resource transfer issues, defining and evaluating outcomes besides maintaining and safeguarding the budgetary integrity, etc. FAs would be expected to look at the total picture of resources for the sectors in which they are functioning, and assist the secretaries of the administrative ministries in moving towards greater resource mobilization, including in terms of enabling policy and regulatory framework to attract private sector funds. Also, FAs would in no case be assigned any routine administrative functions of the ministry.

As per the new charter, FAs would be consulted in all cases relating to the exercise of the delegated financial powers. While normally FAs' advice would be expected to be adhered to, there could be instances/cases in which the administrative ministries feel that there are valid reasons for some modification/deviation. In such rare instances, secretaries of administrative ministries can exercise their power to overrule FA's advice by an order in writing.

3.6 Specific tasks of the IFA

As per the finance ministry memorandum (MoF, June 2006; pp.5-10) the following are some of the specific tasks which the FAs would be responsible for, within the above new framework -

a) Budget formulation

FAs would continue to be responsible for budget formulation. They would bring in more analytical inputs into the budget formulation process, for improved budgeting and facilitating moving from 'itemized' to 'budgetary' control of expenditure. The present system relies largely on previous year's program allocations and continuing commitments, without any real evaluation and expenditure analysis. FAs would now increasingly be required to assist the administrative ministries/departments in moving towards zero based budgeting, and assist in better inter-se program prioritization/allocation within the indicated budgetary ceiling, based on analysis of expenditure profiles of each program/sub-program and information on cost centers / drivers; assessment of output, outcome and performance; and status of the projects/ prograqmmes (e.g. priority to last mile projects). It is expected that, as the FAs' internal budgetary exercise becomes more rigorous, their involvement in finance ministry's budgetary processes will increase.

b) Outcome budget

Administrative ministries will now be required to prepare their respective 'outcome budgets' by late March each year, on the basis of the annual financial statement presented in the Parliament in February. The 'outcome budget' would reflect the outlays in terms of outcomes, defined in measurable and monitorable terms. Reasonability of budget estimates, vis-à-vis the intended outcomes, will be ensured through specific appreciation of the unit costs of outcomes/delivery. Major schemes should have built-in- provision for their evaluation by independent agencies, which may be appointed by the administrative ministries and / or planning commission / MoF. FAs would be actively involved in the preparation of outcome budgets. They would also assist the administrative ministries in clear definition of measurable and monitorable outcomes with specified deliverables; setting up appropriate appraisal, implementation/delivery, monitoring and evaluation systems; and ensuring actual achievement of the intended outcomes.

c) Performance budget

Administrative ministries will also be required to prepare their respective performance budget by early April each year, indicating the 'outcome' of the outcome budget of the previous fiscal year at least up to the February end. Thus, while annual financial statement and outcome budget would be for the ensuing financial year, the performance budget would present the picture of actual achievements/performance for the financial year gone by. FAs would be actively involved in, and coordinate under the overall direction of the secretaries concerned, the preparation of performance budgets for their respective administrative ministries.

d) FRBM related tasks

The Fiscal Responsibility and Budget Management (FRBM) Act require the Government to place disclosure statements before Parliament along with the annual financial statement and the demands for grants. FAs would be responsible for preparation of these statements in respect of their ministry/department for incorporation in the consolidated statements compiled by the finance ministry for the Government as a whole. FAs would also provide requisite information and material as input for Finance Minister's quarterly review of fiscal situation to be presented to the Parliament.

e) Expenditure and cash management

FAs would continue to be responsible for expenditure management and cash management. MoF's initiatives for better expenditure management through sophisticated exchequer control mechanisms would also be supported by FAs with improved cash management, through monitoring of monthly cash flows effectively in the context of cash expenditure/commitments to be agreed to mutually between the MoF and the ministries/public sector undertakings/ autonomous institutions. This would help tighten the system of receipts and payments monitoring, and secure greater convergence of revenue inflow and expenditure outflows, so that borrowing and thus debt charges can be minimized. FAs would also ensure that release of funds to state governments/other agencies is linked to the scheme-wise/project-wise utilization certificate and audited expenditure of previous years. Utilization certificates should reflect outcomes, or at least the physical outputs. FAs will also ensure that unspent balances with the state governments and other agencies are not transferred to public accounts; and in case such transfer is permitted, these should be duly audited. The expenditure management function would also be closely linked to the ‘outcome budget’.

f) Leveraging of non-budgetary resources for sectoral development

FAs would assist the administrative ministries in evolving strategies for optimizing private sector investment and public-private partnership in the sector, through enabling policies/schemes and appropriate regulatory framework, formulating projects for external funding, and taking innovative measures for leveraging of non-budgetary resources for sectoral development.

g) Non-tax receipts

Non-tax receipts have assumed greater significance in the context of the need to limit fiscal and revenue deficits, as mandated by the Fiscal Responsibility and Budget Management (FRBM) Act. An optimum non-tax receipt budget would, therefore, be prepared by FAs, in consultation with the administrative divisions. FAs would, thereafter, periodically review the various non-tax revenue receipts under control of the ministry/department to which they are assigned, in the context of market trends and other sectoral developments. FAs would need to act as a catalyst in moving towards a regime in which the user charges recover the cost of service fully or substantially, as per the Government policy in this regard, and in case of only partial recovery to ensure that the subsidy element is clearly quantified. In the case of rent, license fees, royalties, profit share and dividends, the duties of FAs would include conducting periodical reviews, and giving their considered comments and recommendations regarding the reasonableness of return to the Government on the deployed public resources.

h) Project/programme formulation, appraisal, monitoring and evaluation

Rigorous/effective project/program formulation, appraisal, monitoring and evaluation are vital for high quality investment decisions and successful/timely delivery of intended outcomes. The administrative joint secretaries have to take the lead role in project/programme formulation, implementation and monitoring. FAs should take the lead in ensuring high quality appraisal and evaluation with requisite rigor. FAs would be the nodal points within their respective ministries for all activities relating to plan, budget and programme/project evaluations. As such, any units in the ministry currently looking after the functions of undertaking evaluations, rendering economic advice, preparing annual/five year plan etc. should function under the overall supervision and control of FA.

i) Monitoring of assets and liabilities

Each ministry must have a comprehensive record of its assets and liabilities. FAs would cause appropriate action for an initial building up of such records and their on-going updating, as also for the maintenance and optimum utilization of the assets. Government guarantees should also be monitored. FAs in ministries with significant real estate assets/property (land, buildings etc.) will cause a critical analysis of their utilization, including review of property encroached upon, property involved in disputes/court cases etc., and also be the catalyst to ensure necessary action for their availability and fullest utilization. The progress would be regularly reviewed and corrective action taken on an on-going basis.

j) Accounts and audit

FAs would be kept informed about the overall quality of maintenance of departmental accounts. FAs would also regularly review the progress of internal audit and action taken thereon, to make it an important tool for financial management. Action taken on audit paras may also be monitored regularly.

k) Procurement and contracts

A significant amount of monies is spent by Government on procurements and contracts. FAs would be required to set up strong internal systems to ensure due diligence and strict observance of MoF's guidelines in this regards.

l) Financial management systems

FAs would periodically review the financial management of the various programmes/ projects of the ministry from the systems point of view, and take appropriate action for making the financial management systems more effective.

m) Nominee director on boards of public sector undertaking

FAs are often Government's nominee directors on boards of public sector undertakings (PSUs). This role assumes increasingly more important dimensions with the greater autonomy being granted to PSUs. FAs would need to bring strong requisite to bear on all major issues considered by the boards.

n) Screening of proposals

FAs would be responsible for examining and forwarding all proposals, which need to be referred to any department in the finance ministry.

o) Involvement in key processes of ministries

The new charter specifies that, it is important that FAs are fully involved in the key processes/ activities of administrative ministries which have clear economic and financial dimensions. Administrative ministries shall, therefore, invariably involve FAs in all such activities and decision making processes which would, inter alia, include formulation of annual/five year plans, and other important consultations with planning commission like mid-term appraisal, preparation of 'outcome budget', 'performance budget' and evaluation of actual outcomes, all proposals for consideration of appraising committees/cabinet etc, or otherwise referred to the finance ministry, externally aided projects, and other strategies to encourage larger resource mobilization for the sector, including through public private partnership (PPP), appropriate regulatory structures etc, policy/programme formulation and other major decisions, to facilitate proper appreciation of the consequential financial implications.

3.7 Interface between IFA and Ministry of Finance

The finance ministry memorandum indicates that the system of interaction between the MoF and FAs would be institutionalized to facilitate better two way communication and development of shared perspectives on financial issues. The administrative ministries would be clustered in three groups for this purpose, viz. economic/infrastructure sectors, social sector and other ministries. Secretary - Expenditure would be meeting the FAs of each of these groups once in a year. These interactions will provide a forum to share the vision, priorities and concerns with the FAs who, in turn, would get an opportunity to apprise the finance ministry about their activities, important developments and problems. The quarterly interactions between the FAs and Secretary - Expenditure would inter alia, cover the areas listed below.

a) The implementation/compliance of decisions taken in FM’s quarterly meetings.

b) The initiatives taken as a catalyst for policy formulation/review and systems’ improvements in the concerned ministries.

c) To identify points for action on emerging sectoral issues, including potential opportunities within the sector/ministry.

d) To review major proposals/projects currently in different stages of preparation/ approval by the administrative ministries, for the consideration of appraising committees/cabinet etc.

Under the new system, the FAs will be required to prepare an annual finance report, which would be a factual report indicating the operational aspects of financial management of the department/ministry, including information on the resource requirement, pattern of expenditure concerning outlay/budget, opening and closing unspent balances, opening and closing position of utilization certificates, position of non-tax revenue (user charges, dividends etc.) concerning to previous year, FRBM related activities etc and suggestions for improvement. FAs would also be required to furnish an annual outcomes and systems report’, which would give factual information regarding the outcomes achieved vis-à-vis intended (as per outcome budget), policy and system changes/improvements and action-taken/results-achieved in regard to those aspects of FA’s role which are not included in the annual financial report.

3.8 Capacity building for IFD

The finance ministry memorandum stipulates that the IFD will require strengthening for assisting the FA in his redefined role. Such strengthening will include need for using information technology, setting up knowledge management structures, building requisite data bases, networking with relevant institutions/expert bodies etc. It may also require changes in the various decision making processes, conflict resolution, problem solving, program/project formulation/appraisal, monitoring, evaluation etc., and delegation by FAs within their own divisions. The staff/officers would also require specialized training for rendering better professional advice. In addition, consultants may be required for specific tasks from time to time.

It is also suggested that an institutionalized system to be set up by the department of expenditure for organizing periodical workshops, seminars and training for FAs and their officers, and for helping FAs in preparation of induction material for a different level of functionaries working under them. At the beginning of each Financial Year, the FAs should indicate to the department of expenditure, the training needs of their respective IFDs, areas where they want opportunities for their own capacity development, and assistance required to facilitate meeting of these needs. Basic skill up-gradation areas could include Government accounting, commercial accounting, project appraisal, financial analysis, corporate governance etc. Policy related and sector-specific training could include public private partnership, contract management, negotiation, risk management, mergers and acquisitions etc.

4. Experience with the working of the IFD

4.1 Status and role of IFD in the central ministry

The institution of integrated FA occupies a unique position in the functioning of Government of India. Under the existing scheme of budgetary and financial control and delegation of powers, the ministries have an integrated FA, who plays a pivotal role in the ministry's financial management. With his assistance, administrative ministries exercise the enhanced powers delegated to them. As seen earlier the integrated FA is responsible to the administrative ministries in the exercise of its delegated powers; and outside the scope of the delegations, the FA functions under the guidance of the finance ministry. In accordance with the Government of India (Allocation of Business) Rules 1961, financial powers of the Government are vested in the Ministry of Finance. The department of expenditure in the finance ministry has the authority to delegate financial powers to various subordinate authorities of the Government of India. The financial powers of the government, which are not delegated to any subordinate authority, remain with the finance ministry. The department of expenditure has the authority to prescribe financial rules and regulations necessary to run the affairs of the Government.

The FA's position is the outcome of a process of decentralization of financial powers within the Government of India. In 1955, internal FAs were appointed in selected administrative ministries to represent the finance ministry and in order to exercise the delegated powers. Each ministry had an internal FA and associated FA based in the finance ministry. In spite of the recognition of the important role of FAs, the implementation aspects are not as effective as envisaged. The lack of appreciation of the financial procedures, over centralization of financial powers and near absence of accountability at an individual level is the main factors for such a state of affairs. When the scheme of FAs was implemented in the year 1975 to decentralize finance functions away from MoF to the line ministries, many hopeful words were said regarding their role, duties, and functions. In practice, however, FA has not really grown beyond a limited expenditure advisor and as an optional interlocutor for their respective ministries with other nodal ministries like the finance ministry, planning commission and department of personnel and training.

With the introduction of the scheme of integrated FA and enhanced delegation of financial powers to ministries, the role of the finance ministry declined significantly in the micro management aspects of financial management of the ministries. It was stated in the office memorandum of 6th October 1975 that, 'It is cardinal to the working of the new scheme that the FA should be associated with the formulation of schemes from the initial stages'. This, in practice, never happened. Normally, the FA comes into the scene much later when the scheme has taken a concrete shape when he can play only a limited role of concurring with the proposal or raise some points, which get answered in due course. The repeated asking of questions or raising issues is also frowned upon as an unnecessary intrusion. Raising basic issues such as questioning the “necessity” of the scheme/proposal became more and more difficult under the integrated financial advice system. The other argument in favor of introducing the scheme that the financial expertise of FA would assist the secretary of administrative ministry and other senior officers in the planning, programming, budgeting, monitoring and evaluation, functions of the ministry, was somewhat empty in content, as the system of planning, programming, budgeting and evaluation as a decision-making process in resource allocation and financial management, was never clearly introduced.What perhaps came into effect was a watered-down version of performance budgeting,which also never took off and was more in the nature of window dressing. Therefore, the benefit of the integrated FA system, as contemplated while introducing the scheme, never really materialized on ground.

At present, in majority of the ministries, the FA’s involvement in formulation of plan schemes is at best optional and limited. Even the crucial function of preparation of annual plan budget estimates of the ministry is generally discharged by another divisional head in the ministry dealing with plan coordination (often in addition to his other line functions), in association with the corresponding subject matter advisor in planning commission. Inputs for outcome budget also have, by and large, little involvement of FAs. The very designation of financial advisor, as applied to their present condition, depicts a mindset which considers finance and expenditure management as a backroom function with much optionality as regards their involvement in the business of governance per se. If any hard proof of this averment is needed, it could be easily found in their skeletal resources, both in quantity and quality at their disposal, with which they are expected to discharge their hopeful yet nebulous and pristine mandate. No wonder little serious and reliable action has followed in regard to production of performance budget. In many ministries, some division other than finance probably coordinates even that function. The document produced, however, commends itself little to be called a performance budget, especially when we take the most commonly understood meaning of the term today.

It needs to be clearly understood that increasing the role of FAs unilaterally by addressing the issue to FAs would not help, as efficiency and effectiveness of FAs and IFDs would be circumscribed by the management framework within which they function, where FA is only one of the players. If the Ministry/Department concerned does not lay down its performance goals or outcomes that it wants to achieve, if there is no link between performance indicators and budgeting, if the financial management system does not make it mandatory for drawing up of annual financial statement with computation of assets and liabilities, it is simply not possible to redefine the charter of FAs. Besides in the present situation in central ministries, many of the FAs are saddled with additional charge of more than one ministry/department. They can perhaps perform better in terms of proper functioning of the IFA system if there are no multiple charges and every department should have its own full time FA.

4.2 Role in preparation of budget

The FA and consequently, the IFD were designed to play a very crucial role in the financial management of the central government. The institutional structure through which the budget is managed comprises of a hierarchy consisting of the ministries/departments, their attached and subordinate offices, public sector undertakings, autonomous bodies etc funded by the Government etc, operating within the overall framework of the Parliamentary control & in continuity with instructions and guidelines issued by the Ministry of Finance & the Planning Commission. As discussed, already Article 112 to 115 of the Constitution lay down the procedure for presentation &approval of the budget of the central government. The Appropriation Act passed by the Parliament contains the authority to appropriate the specified sums from the consolidated fund of India for the specified services. The Comptroller and Auditor general of India (C &AG) conducts an appropriation audit under Article 119 of the Constitution to ascertain that the expenditure actually incurred under the various grants is within the authorization given by the Appropriation Act and whether the expenditure has been incurred in conformity with the relevant rules, regulations & instructions.

Despite clearly laid down rules and regulations the budget implementation process in India shows many deficiencies like (a) heavy saving and surrenders have been taking place under several grants, while at the same time, many schemes of national importance are starved of funds (b) supplementary grants of heavy amounts are made every year, which shows, that proper forecast of expenditure by various ministries and departments was not made (c) re-appropriations made under delegated powers of the finance ministry were injudicious as the original provisions under the heads where re-appropriations are made were not utilized. This indicates that the spending departments had no idea of the trend of expenditure on various schemes and programs or made inaccurate forecasts of expenditure even when they were halfway through the financial year (d) excess expenditure over budgeted grants, showing lack of exchequer control (e) there was heavy rush of expenditure in March (end of financial year) and in large number of cases a significant portion of the budgeted money is released in the last fortnight of the financial year. As it is not feasible to constructively utilize the money within the financial year, most spending departments try to circumvent rules and commit financial irregularities to escape the lapse of provision.'(Gupta and Saini, 2008; p.135-137)

An analysis of the situation would reveal that the large part of the problem is in expenditure management which arises due to a rather highly centralized system of allocation of resources with most of the powers centralized in the finance ministry, the overlapping jurisdiction of planning commission in respect of plan schemes and the system of annual budgetary appropriation. As per extant rules, the budgetary outlays for plan schemes and projects are reflected in annual budget after the planning commission has given 'in principle' approval for the same. However the actual investment /expenditure can be incurred only when the detailed scheme has been formulated and approved, and approved by the prescribed authority (MoF Guidelines, November 2007; pp.1-18). A great deal of justification is required as also consultations amongst various ministries / departments before the proposals are approved. The procedure follows a long torturous path and may take a few months to a few years for obtaining approval. This is one of the major reasons for the surrender of funds at the end of the financial year. The process gets invariably repeated every year. The planning commission also sanctions a host of centrally sponsored schemes (CSS), whose implementations are with the state government. Very often, the state governments are not able to fulfill the conditions under which the schemes are sanctioned specially delays in implementation of schemes, unspent balances from previous years, which result in central ministries not releasing the money & hence its surrender.

With a highly centralized system of budget making & little power with the administrative ministries for allocation of funds, they develop a tendency to inflate their demands both for existing and new schemes. On the other hand, due to resource constraint, the finance ministry develops a psychology to allocate the minimum necessary funds sought by the administrative ministry, rather than on merit of the scheme. In the process, the whole exercise of budget process becomes a bargain rather than need based. Although the finance ministry has been making efforts to prune unnecessary schemes & cut down expenditure by introducing measures such as zero based budgeting (ZBB), but they have not been successful due to unwillingness of administrative ministries. One of the major problems with the existing budgetary practice is its 'input orientation'(i.e. funds being allocated without correlating them to output).Although performance budget was introduced in 1970's following the recommendation of Administrative Reforms Commission (ARC) & is prepared with considerable details by every ministry , still it has largely remained a ritualistic exercise. The report of the Working Group of FAs (MoF, September 2005; p.10) on the status of the preparation of the performance budget in Government of India states -

‘After many initiatives early on, still the envisaged integration of performance budget with normal budget, i.e. demand for grants, have not come about in the right manner. The focus of budget continues to be on input allocations without direct linkages with program outputs (not to speak of outcomes), and without much correlation with the past performance. Determination of program's performance measures has remained as nascent as ever. Meanwhile, the number of central ministries, often with intersecting mandates and functions, has grown. In such situation, performance budget has receded in to the background as a perfunctory formality. A close look at some performance budgets would reveal that these are at best only a disjointed compilation of data and information. Performance budget has not evolved as a key instrument for management information, executive accountability, and performance reporting for the legislature and for the general public.’

An analysis of the situation reveals the reasons for such a state of affairs. They are : (a) performance measurement of A Government program and activities is a highly complex and tedious task, sometimes impossibly so; (b) program managers are not always as enthused about performance measurement as they would be (with good intentions) about program implementation; (c) activity based cost accounting and management of the Government program is still in infancy everywhere and is facing progressive hurdles as complexity of Government business grows; (d) there are many information asymmetries and subjectivity in performance measurement, especially in multi-layered Government program; and, last but not the least, (e) Performance budgets have yet to develop themselves as key input to the decision support systems for policy making. Besides, an effective and efficient national system of performance benchmarking is crucial to the whole process. Good performance benchmarks must satisfy the criteria of being clear, relevant, economic, adequate, and monitorable (CREAM). Designing those would involve: (a) formulation of outcomes and goals; (b) selection of outcome indicators; (c) gathering baseline information on current condition; (d) setting specific targets to reach and, timeframe within which these are to be achieved; (e) regular collection of information to assess whether the targets are being met; (f) analyzing and reporting the results, particularly the rates of convergence of targets and the deviation of the achievements from intentions.

Further, performance budgeting is an information intensive exercise. Information & Communication Technology (ICT) has been one of the prime movers of the performance movement. It has made it possible to marshal, keep, process, and validate a large body of information; to sift it conveniently for management use; and, to put it in public domain for study, scrutiny, analysis, and benefit of all the information stakeholders, in the most economic, effective, and efficient manner. Much of lack of transparency, corruption, wastefulness, etc. in the government program could be directly linked to the historical mystic and opacity of the government information system, which could be dismantled by application of ICT in governance in the real sense.

It is recognized that the problems associated with performance budget have not diminished its need or importance. On the contrary, Carter (1994; p. 2-3) and Knaap (2000; p. 335-350) analyse that performance budget is considered the foremost instrument of formally establishing and taking forward the performance movement. Performance budget could be the answer to many issues: a strong decision support for policymakers; a much validated MIS for the programme managers; an assurance to taxpayers of efficient, effective, and economic utilization of public resources; a measure to ensure transparency in the principal-agent model in government (fiscal) transactions.

4.3 Professional competence of finance officers

It is very clear that in the present scheme of things that financial advice has become a specialized function in the Government of India. Doubtless those posted in these positions should have the required skills to handle the jobs of such a specialization. As there are variations across the ministries, the skills and experience required by the officers posted in IFD also differ. For example, in the Ministry of Industry, experience of handling corporate financial matters and project evaluation techniques are a must. Ministry of Agriculture would require experience in implementing planned schemes whereas the regulatory ministries require expertise in financial administration. The workload, especially in the economic and infrastructure related ministries are very large. The FA is on the board of directors in more than forty public sector undertakings in the Ministry of Industry and almost same number of public sector undertakings in the Ministry of Commerce. This is apart from dealing specifically with accounts and finance work of the ministry concerned. Thus the Role of FA and his office vary from ministry to ministry depending on the functions/activities of the department. Though, there are certain common functions and responsibilities, functions of ministries differ and so the tasks and approach adopted by the FA also differs. In the economic and infrastructure related ministries orientation is more towards investments and increasing the output and in these ministries the FA has a crucial role to play. These ministries deal with projects and thus investment appraisal is a critical area. It involves estimating the necessity, worth and scale on which the project should be taken up. The FA has to ensure the following aspects while examining the feasibility report of the project.

a) Information about the past performance of the industry and its present status, the way in which the industry is organized and its priority, about the need of the project and about its implementation;

b) A preliminary analysis of the alternatives and their comparative costs and also the justification for the chosen alternative;

c) Project description covering the technology to be employed, the equipment and machinery to be procured, labor input in construction, management and transport requirements and phasing of the project;

d) A market plan analyzing the demand and supply, indicating the prices and expenses;

e) Capital requirements and costs with a break-up under various subheads;

f) Operating requirements and their costs;

g) Financial analysis showing estimated incomes and expenditures, cash flows, financial performance and internal rates of returns;

h) Social profitability analysis - the social and economic costs and benefits attributable to the projects

The FA has to also play important role in the process of sanctioning of projects also. Once the expenditure sanction has been obtained from the expenditure finance committee (EFC) or from the public investment board (PIB), the FA again has a crucial role in vetting the detailed project report and giving a firm shape to the estimate. From the nature of the work, clearly the type of financial advice rendered has a crucial role in appraising projects with proper financial considerations and a key role in decision making. In the regulating ministries like Home and External Affairs the role is different; there are no development schemes and no investment appraisals. There is a very limited scale of monitoring and the functions, mostly relates to monitor of monthly expenditure and progress in civil works. The FA largely deals with establishment matters and in most of the cases he has to make references to the finance ministry. With severe restrictions on administrative expenditure the FA has normally to take a tougher stand on proposals regarding administrative matters. In this type of role and the need for reference to Ministry of Finance, the administrative ministry does not find any difference between the previous associate financial adviser system and the present one. However, the presence of the integrated FA helps in having better financial consciousness and framing of more realistic proposals which get through the finance ministry. Here the FA has a more positive role to play by initiating norms. Study of various jobs and the internal work-study is under the FA for this purpose. In-house studies of cost and functional effectiveness of various organizations under the ministry are also being undertaken by the FA. The activities covered by research and development departments /ministries are different and financial advice has to be viewed in a different perspective. With investments becoming more and more important, the normal yardstick of returns cannot be applied. More important than budgetary and financial considerations is technical clearance and often one has to go by the recommendations of the technical authorities. However, the proposals for civil work and acquisition of equipment go through the same procedure as for, reviewing of establishment costs etc. In the welfare ministries, like Health and Human Resource Development, FA cannot limit himself to monetary consideration because social benefits are more important. Highlighting this diversity in functional responsibility, in a letter to the Secretary Expenditure FA- WR wrote -

“The role and functions of ministries, especially economic ministries, have materially changed during the 1990-2000 decade and afterwards, after the process of liberalization was set in. Most of those ministries deal with major PSUs. Those PSUs were earlier fully owned by Government. The economic ministries were (and are) relatively smaller in size and freely co-opted staff and expertise from their respective PSUs for technical assistance. In those ministries there is relatively little direct Government expenditure. Yet, their financial roles were much larger. Those roles have further grown in the recent years. FA's role has generally and primarily been perceived to be limited to control of direct expenditure of the ministry. The other matters with national financial implications which are handled by the economic ministries are referred to FAs in a rather optional manner. Even when they are referred, FAs have very little internal support to analyze and examine those, with due diligence and with reference to the nuances of finance & accounts pertaining to that particular economic sector."

In an workshop for FAs, the then Secretary, Ministry of Power E.A.S. Sarma (who had been a member of Eswaran Committee 1996, which went into the role of FAs) stated-

'I feel that one of the shortcomings of the FA system is that there is no professionalization. It is a highly specialized, highly technical subject where you deal with budgets, you deal with appraisal procedures. Therefore, you required people who are trained. Secretary (Banking) in his evidence to the Committee said that in the ministry you require a person who knows the new financial instruments which are emerging in the capital market. He said that integrated finance division rarely understood and appreciated the issues emerging from time to time. He said that he would like someone from the capital market who is good in this in the ministry. Similar is the situation in the department of heavy industry. You require somebody who knows how to restructure a sick PSU. Reading a balance sheet is a fundamental thing that most people do not understand in the Government.' (Mathur B.P. 1991; p.211)

In this background the professional competence of the finance division which provides the needed sustenance to the FA in their professional interaction with the finance & the administrative ministry is required to be augmented. If the IFDs are required to function in a professional manner as the system expects them to do so, the executive officers will be much more receptive to the financial advice rendered to them. A study conducted on departmentalization of accounts had observed that more than 50% of the staff currently in the IFDs did not belong to any cadre which had received any systematic training in finance and accounts. In addition the officers posted in the IFDs do not perceive the assignment as lucrative and are also not very receptive for such trainings. However, the truth on ground remains that most of the staff posted in the finance divisions are not having any background of finance and accounts neither are they given any specific training needed for their jobs. The generalist's approach to finance function in India contrasts with the situation in other countries; particularly, those who have adopted accrual accounting have rapidly professionalized their staff. In Australia and New Zealand, the Chief Finance Officer (CFO) should be a full member of a relevant professional body or have significantly demonstrated expertise in financial management. UK has also adopted the policy of recruiting professionally qualified accountants with senior level experience for the post of Finance Directors, equivalent of FAs in our system. In the United States, the Chief Financial Officer (CFO) is modeled on private sector Chief Finance Officers. Recent developments in governance and accounting and reporting standards in USA, have made it increasingly likely that qualified accountants will fill both CFO and Dy.CFO Posts.

Therefore, for strengthening the financial management system in central government, it would be necessary to recruit persons with professional background in accountancy and audit. A cadre would require to be built up based on an examination open only to those having required professional background. One can also think of lateral entries at higher levels at the rank of Directors and above, who have required experience in accountancy and financial management. In future, the posts of IFAs should be open only to those have this kind of professional background and experience in financial management.

As MoF's letter on the new charter of duties for FAs states, over a period of time, the enhanced capacity and expertise of IFDs, coupled with increased delegation of purely routine financial activities to the administrative divisions of the ministries, would enable FAs to take on a more active macro-management role. This will also significantly enhance FAs' role in, and value-addition to, the budgetary management and project/program appraisal processes (MoF, June 2006; p.18)

4.4 Duality in role of IFA

Under the IFA system, the secretary of the department/ ministry is to function as the chief accounting officer and discharge this responsibility through and with the assistance of the integrated FA in the ministry. All this were envisaged under the overall perspective of a substantial delegation. The integrated FA was responsible in its dual role both to the administrative ministry and the finance ministry.

There are varying perceptions on the role of the IFA and IFD in discharge of the advisory and regulatory responsibilities due to inherent conceptual duality of his role. If the internal finance makes a sincere effort to implement the guidelines issued by the finance ministry, then he is categorized as 'negative' or 'non cooperative' by the administrative ministry. On the other hand, if the finance division supports the proposal of the administrative ministry and defends it when the finance ministry mandarins have reservations on the subject, the finance ministry dubs him as 'pliable' or 'ineffective'

The Eswaran Committee appointed in 1996 by finance ministry recommended that FA should be an integral part of the administrative ministry & accountable to the secretary of the ministry (Eswaran.V.B et al.1996). In 1973 the Yardi Committee report recommended that responsibility for internal financial management should be entirely that of administrative ministries. It reiterated the need for performance budgeting and management accounting, under which internal financial management would have a fruitful role. However, this suggestion was not accepted. Nevertheless, the fact remains that while every officer concerned with spending government money was supposed to observe the standards of propriety, in effect, it became duty of the FA to ensure, while examining proposals for financial concurrence, that these principles were indeed observed by the spending authorities.

Indicating the problem being faced by FAs and expenditure department in the discharge of their functions, the then Secretary-Expenditure, in a key-note address in a workshop of FAs in National Institute of Financial Management (NIFM) in 1999 drawing upon his experience, stated that the FA should be concerned himself with whether there was budgetary provision or not without going into details of the schemes. The FA is supposed to be a person who should only state whether the project expenditure is as per the budget but should not go into the questions of propriety or correctness of the use of the budget. In the finance ministry, especially in expenditure department, a stage is reached where every ministry points its hand criticizing the finance department. There are criticisms, starting from courts of law to committees of Parliament. Whenever questions are asked from agencies or departments why they had not taken a particular action they say that 'finance' had not given them adequate funds or 'finance' had objected to the scheme. Finance is sometimes being called upon by the Committees of Parliament as to why they had raised a particular objection due to which proposal could not go through. (Mathur.B.P. 1999; p.6)

There is no change in position even today. FA Water Resources in his DO letter (MoWR, 23 July 2004) to Secretary- Expenditure pointed out that -

"Because of perceived duality of FAs' role, line ministries have yet to accept FAs as a part of their management team. Papers often come to FAs for financial proof-reading at the eleventh hour. It is also not uncommon that FAs receive referrals even on fiscal matters by default rather than by design. Their role often becomes limited to case-by-case examination of proposals for expenditure clearance. Many ministries have assigned plan-budget responsibilities to other divisions dealing with general policy. FA's duty, responsibility, and accountability in budget formulation and monitoring of expenditure needs to be secured more explicitly by formal government orders. MoF also needs to secure an accountability-oriented formal involvement of FAs in formulation of schemes from the beginning, through executive instructions at the highest level. The term 'financial adviser' in the international financial circles conveys a different meaning, with specific professional accountability. In Indian official context, it indicates – perhaps unwittingly- an open-ended optionality about their role itself in the scheme of things."

4.5 Need for enabling legislations

The latest charter of duties for FAs envisages that they should function like Chief Finance Officers (CFOs). This concept is not new in financial management of the government. However, to avoid confusion and clarify about the roles to be played by central agencies CFOs in financial management, a suitable enactment is called for. In this context attention is drawn to the provisions of the Chief Financial Officers Act, enacted by the U.S. Government in November 1990. Comptroller General of the United States in the preface to their booklet on the Chief Financial Officers Act wrote, "The Chief Financial Officer (CFO) Act of 1990 (Public Law 101-576) marks the beginning of what promises to be a new era not only in federal management and accountability, but also in efforts to gain financial control of government operations. This is the most comprehensive and far-reaching financial management improvement legislation since the Budget and Accounting Procedure Act of 1950 was passed over 40 years ago. The CFO Act will lay a foundation for comprehensive reform of federal financial management". The comprehensive government-wide and agency plans called for in the act were to enable top managers to monitors major financial management systems development efforts and operations. The CFO Act particularly recognized that the lack of a cadre of highly qualified financial management professionals had long hampered effective financial management operations. To put briefly, the CFO Act thus changed the US federal financial management system in three ways: (a) it created a new organizational structure for financial management, (b) it encouraged the development of new and compatible accounting systems, and (c) it required new form of reporting. The legislative mandate has greatly enhanced the role of financial management in the public sector of these countries and has given them a new direction.

Based on these experiences, the need for enactment of suitable legislation for strengthening the financial management system is a must. It should indicate the role of each functionary, stress the need for established proper financial and accounting standards, and indicate improvement in the financial reporting system including the cost information. The Act should emphasize the need for strengthening internal control and internal audit among other things.

5. Functioning of IFD in the Ministry of Water Resources

5.1 Organization and function

According to the Constitution of India, water is essentially a state subject. Center's role is generally limited to policy formulation, national planning, guidance, and assistance to the states. The Ministry of Water Resources (MoWR) in the Government of India is thus responsible for laying down policy guidelines for overall development, conservation and management of water as a national resource, overall national perspective and coordination in this regard including coordination of diverse water issues. The ministry has been implementing/monitoring around 63 plans and 3 centrally sponsored schemes during Tenth (X) plan period through its various wings/organizations. For Eleventh (XI) plan period, the activities under various programmes/schemes being implemented/monitored by the ministry have been clubbed to about 15 central sector, 1 centrally sponsored and 4 state sector schemes. Under the secretary, the ministry is organized under one administration, nine technical wings and one finance wing. The ministry has two attached offices, seven subordinate offices, seven statutory bodies, two autonomous bodies (societies) and two public sector undertakings. Administratively the ministry is organized into subject matter divisions (SMD) for functional purpose based on the sectors of work entrusted to them. The spread of the ministry with respect the financial resources handled by it is explained in the table5.1. As could be seen the ministry handles a total budget of approximately INR 4500 Crores (approximately 700 Million Euro) per annum distributed over the plan and non plan expenditure for the social sector schemes.

Table 5.1: MoWR Budget (2007-08) at a glance

(Indian Rs in Crore)

No	Schemes	Outlay
A	**Centrally Sponsored Schemes**	
01	Command Area Development and Water Management	300.00
	Total CSS	**300.00**
B	**Central Sector Schemes**	
	Investigation and Planning	
01	Development of Water Resources Information System	30.00
02	Hydrology Project	33.00
03	Ground Water Management and Regulation	62.00
04	Investigations of Water Resources Development Schemes	30.00
	Research, Training and Mass Awareness	
05	Research and Development	30.00
06	National Water Academy	2.00
07	Rajiv Gandhi National Ground Water Training Institute	1.50
08	Information, Education and Communication (New schemes)	2.00
	Project/Programme Implementation	
09	Pagladiya Dam Project	1.00
10	Farakka Barrage Project	33.00
11	River Basin Organizations/Authority (New scheme)	0.50
12	Dam Safety Studies & Planning	1.00
	Flood Management	
13	Flood Forecasting	16.00
14	River Management Activities and works related to Border Areas.	46.00
	Infrastructure Development	
15	Infrastructure Development	12.00
	Total Central Sector Schemes	**300.00**
	Total (CS+CSS)	**600.00**
C	**State Sector**	
16	AIBP and other Water Resources Programme	3580.00
	Total (CS+CSS+STATE) PLAN	**4180.00**
17	**Non-Plan**	278.00
	GRAND TOTAL	**4458.00**

Source: Performance and Outcome Budget: Ministry of Water Resources, 2007-08; p.130-135.

The MoWR's role and activities are as follows. (Performance Budget, 2007-8; p.5-7):

a) Overall planning, policy formulation, coordination and guidance in water sector.

b) Technical guidance to and scrutiny, clearance and monitoring of the irrigation, flood control and multi-purpose projects (major and medium) of the states and Union territories.

c) Infrastructural, technical and research support for sectoral development at the state-level.

d) Providing special central financial assistance and help in obtaining external financing from the World Bank and other external agencies in some cases.

e) Overall planning, policy formulation, guidance, administration and monitoring of the schemes in respect of minor irrigation and command area development.

f) Overall resources planning, establishment of utilizable resources and formulation of policies for exploitation of ground water, overseeing of support to state-level activities in ground water development.

g) Formulation of national water development perspective and determination of water balance of different basins and sub-basins for exploring the possibilities of inter-basin transfers.

h) Coordination, mediation and facilitation regarding resolution of differences or disputes relating to inter-state rivers and overseeing of the implementation of the inter-state projects in some instances.

i) Operation of central network for flood forecasting and warning on inter-state rivers; provision of central assistance for some state schemes in special cases, and preparation of flood control master plans for the Ganga and the Brahmaputra.

j) Talks and negotiations with neighboring countries (Bangladesh, Nepal, Bhutan, China and Pakistan) regarding river waters, water resources development projects, the operation of treaties etc.

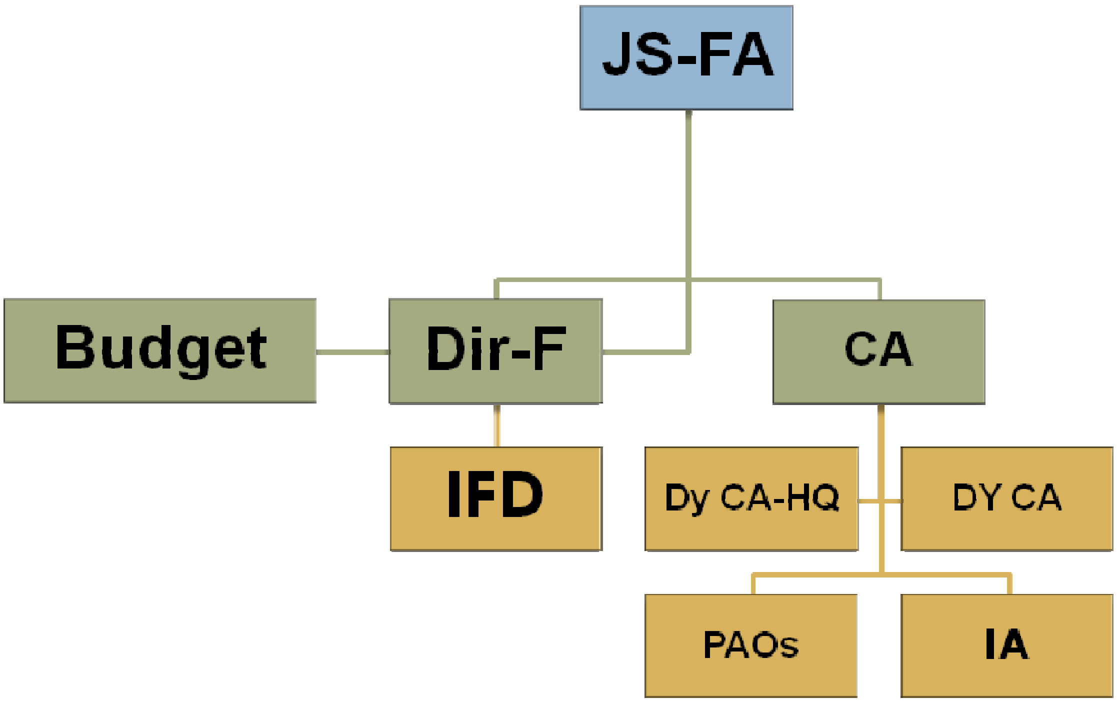
5.2 The Internal Finance Division (IFD)

The internal finance division (IFD) is organized under the Joint secretary and FA (JS-FA). JS-FA is the IFA who is responsible for the financial management functions related to the 16 schemes (listed in table 5.1) as per the organogram below. The JS-FA reports to the Secretary-WR in respect of delegated powers and represents the Ministry of Finance in respect of other powers.

The IFD has three finance desks and one budget desk.Each desk is manned by an officer of desk officer / under secretary rank. The overall coordination of IFD is with the Director-Finance who assists the JS-FA in organizing the day to day functions of the IFD. The Controller of Accounts(CA) looks after the accounting aspects of the expenditure as well as the internal audit of the department.

The various project proposals are initiated by the subject matter divisions (SMD) within the ambit of approved guidelines of the scheme and are sent to IFD for financial concurrence before seeking approval of the competent authority. The detailed charter of duties of IFD under the IFA system is already discussed in the previous chapters. The budget desk deals with coordination of all matters pertaining to preparation and vetting of budget estimates, and matters related to the Standing Committee of Parliament on the Water Resources. The task entrusted to the finance division requires thorough knowledge of the subject as well as extant financial rules and procedures that needed to be applied in such cases

Figure 5.1: Organizational chart of IFD



Source : Author

The specific works handled by the IFD are as given below.

a. To scrutinize all expenditure proposals.

b. To conduct a thorough scrutiny of the budget proposals before their inclusion in the annual budget.

c. Preparation of the budget (including foreign exchange budget) of the ministry according to the time schedule lay down by the finance ministry and any other instructions lay down by the finance ministry in this regard;

d. Distribution of budget allocations to the various departments, wings and other formations of the ministry.

e. To screen proposals for supplementary demands for grants.

f. To advise the administrative ministry on all matters falling within the field of delegated expenditures';

g. To have close association with the formulation of schemes and important expenditure proposals from their initial stages.

h. To screen all expenditure proposals required to be referred to the Ministry of Finance for concurrence/ comments.

i. To have close association with the evaluation of projects/performance in the case of projects and other continuing schemes and to see that the results of such evaluation studies are taken into account in the budget formulation.

j. To ensure regular and timely submission of quarterly staff statements and other reports and returns required by finance ministry.

k. Compilation and consolidation of the accounts of the department/ministry in accordance with the instructions issued by the central government and / or the Comptroller and Auditor General of India.

l. Preparation of appropriation accounts for the grants controlled by the ministry.

m. To ensure proper maintenance of the register of liabilities and commitments as required under the General Financial Rules (GFR) to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.

n. To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary control registers and to issue timely warning to controlling authorities where the progress of expenditure is not even.

o. To scrutinize proposals for re-delegation of powers to sanctioning expenditure to subordinate authorities.

p. Introduction of a system of management accounting to suit the functions and requirements of the department/ ministry.

q. To watch the settlement of audit objections, inspection reports, draft audit paras etc.

r. To ensure prompt action on audit reports and appropriation accounts and report of Estimates Committee and Committee on Public Undertakings.

s. To overview the functioning of the internal work study and O&M Units of the ministry so that both economy and efficiency in the transaction of the work of the ministry are ensured.

5.3 Specific functions of IFD

5.3.1 Rendering financial advice

As envisaged in the charter of duties of the FA, he is responsible for sound financial management of the administrative ministry. Accordingly, the IFD functioning under the FA renders financial advice on a host of subject matters dealt with by the ministry as per Allocation of Business Rules. More specifically the IFD records its advice on the case files received from the subject matter division (SMD) on issues related to procurement of equipments, computer hardware and software's, machinery, works and consultancies ,foreign travel of officers, clearance of irrigation projects from techno-economic angle and financial issues related to public sector undertakings etc. The IFD also examines all cases of release of funds to states under various plan schemes, public sector undertakings under MoWR, autonomous bodies like Bramhaputra Board and National Institute of Hydrology etc. IFD also examines the financial management issues related to externally aided projects i.e. the projects funded by World Bank etc. In addition, the IFD renders advice on financial issues pertaining to matters of international cooperation with neighboring countries like Nepal, Bhutan, China, Bangladesh and Pakistan etc. The IFD ensures that the extant instructions in the General Financial Regulations (GFR) and other instructions issued by the finance ministry are complied with by the SMDs.

The IFD also plays a significant role in the formulation and ultimate approval of plan schemes for the irrigation sector. As per the extant instructions of the finance ministry, IFD examines the proposals with respect to the outlays, cost-benefit expected, monitoring and evaluation mechanism prescribed to assess the outcomes before these schemes are posed for the approval of the appropriate forum and the competent authority prescribed. IFD also ensures that the progress of the scheme is satisfactory and the funds are utilized appropriately through prescribed periodical checks.

5.3.2 Budget management

The budget management is the other most important function of IFD. This involves vetting of the budget estimates at the formulation stage, after the same is finalized by the policy and planning division of the MoWR in consultation with the other SMDs who prepare their estimates. The IFD records its advice on the files of the SMD on a case to case basis. While doing so an integrated picture of the issues emerging out of such an examination of cases is also formulated in the IFD by establishing linkages. These linkages are useful in rendering financial advice at a macro level to ensure stringent budgetary control and also for various sectoral reform issues pertaining to the water sector. In addition the monitoring of expenditure, preparation of the revised estimates and its approval from finance ministry, preparation of the final budget estimates and required re-appropriation of estimates based on the utilization pattern is also the responsibility of the budget section of IFD. The budget section also coordinates the preparation of the performance and outcome budget and the matters related to the Standing Committee of Parliament on the Water Resources. The following table gives an idea of the extent of budget handled during Tenth Plan (X Plan) by IFD, and what they are expected to handle in the coming five years i.e. the Eleventh Plan (XI Plan).The table shows an increase of almost 150% in proposed outlay in XI Plan over the X Plan.

Table 5.2: Plan outlays for X and XI Plan for Water Sector

(Indian Rupees in Crores)

Sector	Tenth (X) Plan	Eleventh(XI)Plan
State Plan		
Major & Medium Irrigation	70,861.78	1,33,000.00
Minor Irrigation	13,872.86	35,850.00
CAD	2,789.88	3,000.00
Flood Control	4,619.00	10,200.00
State Plan Total	92,143.42	1,82,050.00
Central Plan	3,600.00	49,750.00
Grand Total	95,743.42	2,31,800.00

Source: Working Group on Water Resources-XI Five Year Plan: Planning Commission, GoI; p.64-66.

5.4 Performance indicators of IFD

The key performance parameters identified for IFD's efficiency and effectiveness analysis are explained below.

1. Quality of financial advice rendered.
2. Reference of cases to MoF even within delegated powers.
3. Adherence to the prescribed time frame for clearance of cases.

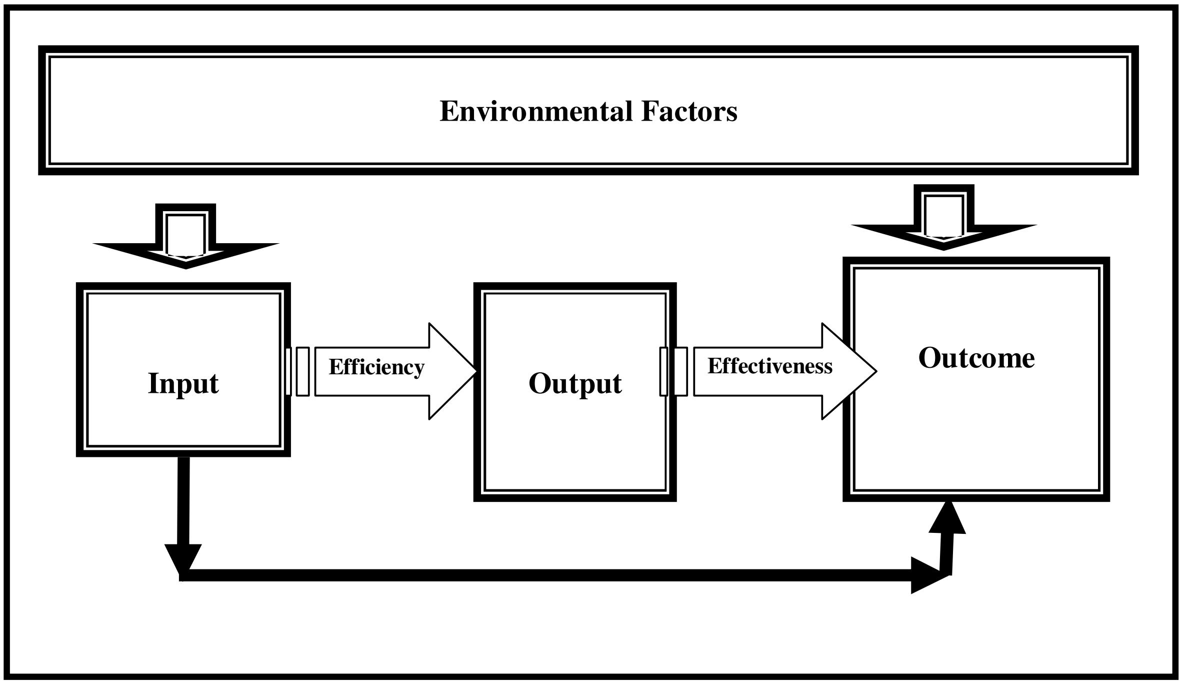
We have made use of the input – output analysis based on both qualitative and quantitative parameters. Items at (2) and (3) are analyzed using quantitative data while the issue at (1) will be analyzed using qualitative method through analysis of case studies and their relevance with respect to the mandate of the IFD.

5.5 Analysis of efficiency of IFD

Working of IFD, MoWR has been analyzed keeping in view of the research questions to be addressed. A theoretical platform for analysis has been developed based on the available methodologies. The analysis of efficiency and effectiveness is about the relationships between inputs, outputs and outcomes. Farrell (1957; p.11) has already investigated the question how to measure efficiency and its relevance for economic policy makers. According to him, it is important to know how far a given industry can be expected to increase its output by simply increasing its efficiency, without absorbing further resources. Since that time techniques to measure efficiency have improved and investigations of efficiency have become more frequent, particularly in industry. Nevertheless, the measurement of efficiency and effectiveness of public spending remains a conceptual challenge. Problems arise because public spending has multiple objectives and because public sector outputs are often not sold on the market, which implies that price data are not available and that the output cannot be quantified. It makes the link between input, output and outcome rather a difficult exercise. The monetary and non-monetary resources deployed (i.e. the input) produce an output. For example, education spending (input) affects educational attainment rates (output). The input-output ratio is the most basic measure of efficiency. The greater is the output for a given input or the lower is the input for a given output, the more efficient the activity will be. Productivity, by comparison, is simply the ratio of outputs produced to input used.

Effectiveness relates the input or the output to the final objectives to be achieved, i.e. the outcome. The outcome is often linked to welfare or growth objectives and therefore, may be influenced by multiple factors (including outputs but also exogenous 'environment' factors). The effectiveness is more difficult to assess than efficiency, since the outcome is influenced political choice. The distinction between output and outcome is often blurred and output and outcome are used in an interchangeable manner, even if the importance of the distinction between both concepts is recognized. For example, the outputs of an education system are often measured in terms of performance or attainment rates of pupils of a certain age. The outcome, however, could be the educational qualifications of the working-age population as a whole. The effectiveness shows the success of the resources used in achieving the objectives set. This implies that efficiency and effectiveness are not always easy to isolate. In addition, outputs and outcomes may be affected by environment factors, which may or may not be within the control of the policy maker. Another complication, which one encounters when measuring efficiency and effectiveness in terms of the identification of inputs and outputs, is that many public services are interlinked. This is the case, for example, when the outputs of one public service are used as inputs by another. For example, the research output of public research institutions is at the same time an input for R&D activities at universities. Similarly, public services can influence each other. For example, the public transport system – the output of spending on infrastructure – affects the spending on education (input) as school buildings have to be reachable. Unlike the private sector the public sector cannot easily be represented by a clear input – output relationship. Assessing the efficiency and effectiveness of public spending requires the measurement of the inputs entering into the production of public sector activities. This can be done in monetary and non-monetary (physical) terms. Figure 5.2 below illustrates the conceptual framework of analysis of efficiency and effectiveness

Figure 5.2: Conceptual framework of efficiency and effectiveness



Source: Ulrike Mandl et.al (February 2008): Economic Papers 301, European Commission; p.3.

In comparison to the private sector, the estimation of the actual costs of public sector activities is relatively complicated. While in the private sector, data are available at a very detailed level of activity, public sector accounts are typically designed differently, making it difficult to obtain information on all input costs, in particular at a disaggregated level. Estache et al. (2007; p.20) stress that public budgets are not really designed to track down the specific sectoral expenditures. Recent literature highlights especially the indirect costs, such as opportunity costs of using government-owned assets, and the allocation of Government fixed costs. An alternative approach to defining appropriate input indicators is to use non-monetary factors, like the number of civil servants deployed for a public activity or working hours spent on this activity.

Public sector performance can be affected by various factors, like institutional and structural factors or other country-specific features. These factors can be beyond the control of public authorities. However, uncertainty remains about the definition of "controllable". Depending on the scope of efficiency-investigations, the "constraints" include the regulatory environment, the institutional setting or even the climate. Recent investigations show that such factors have a key impact on the efficiency level. Wilson (2005) concludes that inefficiencies in transition economies might result from managerial ineptitude or from other constraints outside authorities' direct control. Afonso et al. (2005; p.321) considered a number of other environment factors, including indicators on the educational level, trade openness, transparency in public policy and political accountability. They concluded that the competence of the civil servants seems to be efficiency enhancing. This indicates once more the importance of a well-working public administration for efficiency and effectiveness. Such environment factors are crucial in the analysis of efficiency and effectiveness. First, the neglect of such factors could lead to a bias in the measurement of efficiency and effectiveness. Second, such factors can be effective instruments to help improve efficiency and effectiveness. The present study makes use of such an analysis. The environmental factors having significant effect on the case are listed as constraints faced by the IFD and are also discussed in the course of the analysis of the efficiency of the IFD in the succeeding paragraphs.

5.5.1 Analysis of delays

The quantitative analysis of the data for the period 2005-07 obtained from IFD - MoWR reveals that on an average the IFD handles around 2500 case files in year including the recycled ones. The normal time of disposal of files varies between 1- 40 days depending on the type of case and also the urgency of its disposal. As per the stipulations the case files should be processed within a time frame of seven working days. We will discuss the issue of delays in processing the cases in IFD separately later. The IFD's workload also varies over the year and peaks during the end of the Financial Year. The following table represents the analysis of the cases examined in the IFD and their disposal pattern.

Table 5.3: Analysis of cases processed in IFD of MoWR

Case type	Total (a)+(b)	Approved (a)	Returned (b)		
			Incomplete cases (i)	Observations by IFD(ii)	Total (b) = (i)+ (ii)
Fund release	731	652	55	24	79
Procurements	754	520	196	38	234
Foreign Travel	150	125	1	24	25
Pay matters	100	55	43	2	45
Minor Purchase	500	300	187	13	200

Source: Adopted from register for movement of files, case papers of IFD MoWR, 2007.

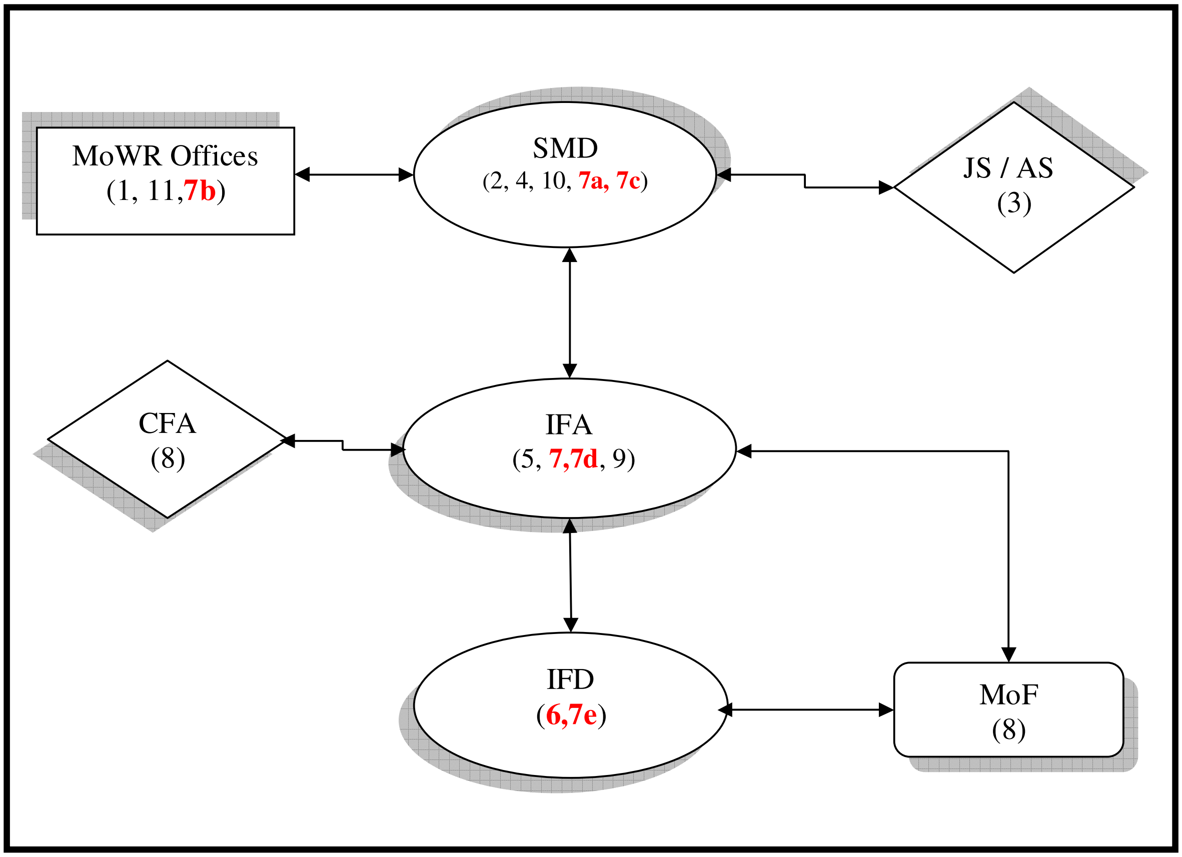
The examination of sample case files in IFD and also the focus group interviews with the IFD and SMD officers revealed that the delays in processing of the cases and their consequential rejection depends on many factors like incomplete case papers submitted by the SMDs and piecemeal observations taken by IFD. These reasons are analyzed below. Before making such an analysis however the process through which the case files are received in the IFD and financial concurrence is given needs to be explained in detail to facilitate better understanding of the situation of interaction between SMD, and IFD.

As can be seen from the flow chart at Figure 5.3, the MoWR offices submit their proposals to their respective SMDs for seeking approval of the competent financial authority (CFA) i.e. the Secretary-WR under the delegated powers in consultation with the JS-FA. Accordingly, the case papers come to JS-FA for financial concurrence after the SMD heads have approved the proposals and have obtained requisite approvals of the Joint Secretary (JS) / Additional Secretary (AS). The cases then get examined in the IFD and financial concurrence of JS-FA as the IFA is accorded when the cases are found to be in order. The financial concurrence of IFA is a must as the sanction letters have to bear the concurrence details of IFA. However, the cycle gets affected when the IFD raises observations on the case papers submitted to it. The critical steps of responding to these are shown in red in the step-7 and there could be repetition of this step if IFD observations are not satisfied leading to much delay and the final step-8 may be delayed inordinately.

As ascertained, the major factor responsible for the delays is that the case files are either submitted prematurely by the SMDs or without completing the statutory information required by the IFD. This makes the examination of the cases difficult and ultimately results in its rejection. As could be seen from the flow chart of processing of cases once the case is returned by the IFD with observations, it has to go through the cycle again leading to repetition of the steps and consequent delays. In between the SMD also takes time (varying between few weeks to more than six months) to respond to the questions raised by the IFD. This happens to be the main cause of delays in processing of cases and also results in the modification of priorities of the SMDs. Naturally, the linkage between the input, output and outcome are distorted.

Another reason equally contributing to the delays in the processing of the cases in IFD is the tendency to raise piecemeal observations while examining the cases. This result in the return of the cases repeatedly to the SMD. This ultimately tires out the SMDs in responding to the questions of the IFD. Needless to mention the focus is lost and the utilization of the allocated budget is also adversely affected since the SMD could not ‘convince’ the IFD. The table 5.3 presents an analysis of cases processed by IFD in FY 2007-08.

Figure 5.3: Flow Chart of Processing of files



Source: Author

The underlying cause of such a situation is complex and is difficult to analyze. Barring the fact that the officers in SMDs add new information and commit new mistakes in resubmitting the files to IFD, the lack of a finance background in IFD officers is also one of the underlying causes of such a situation. Unable to analyze and link the individual cases to the macro picture and the prescribed outcomes of the ministry and also unable to find a solution to the issue in hand the easiest method of getting rid of a case is to perhaps return it with few objections hoping that the case will perhaps die a natural death. Ironically it happens in many cases resulting in surrender of funds in one financial year only to repeat the story in the next financial year. For example, in an e-governance initiative taken for one of the offices of the ministry a case proposal was rejected many times on various pretexts in IFD like non-establishment of the necessity, lacunae in procurement procedure, lack of budget etc. The case was never examined in totality and nor a solution could be reached. The requirements of that organization could not be assessed by the IFD in real perspective and non clearance of the project led to the inevitable i.e. surrender of funds and failure of the e-governance initiatives affecting the efficiency of the organization. A similar situation could prevail in R & D projects where procedural issues negatively affect the research initiatives. This does not however suggest that the laid down procedures should not be adhered to. The SMD and IFD both would look justified in their respective diverse stands, but there is a need for productive cooperation between them.

One needs to understand that the diverse views are emerging because of difference in perception of the same situation in the program and the finance division and has a lot to do with the lack of program budgeting in the ministry. A more objective approach with outcome orientation in budgeting will perhaps take out the subjectivity from which such cases suffer and lead to enhancement of efficiency of both IFD and SMD. We will discuss this again when we deal with the issue of constraints faced and the effect of environmental factors on the efficiency and effectiveness of IFD.

5.5.2 Cases referred to Ministry of Finance

As per the extant orders financial powers are delegated to the administrative ministry to be exercised in consultation with the IFA. There are certain powers which are still not delegated to the administrative ministry and for these cases the approval of the finance ministry is required. Specific instructions exist for this. However, it is the experience in the finance ministry that many case files get routinely referred to them by IFDs even when such reference is not warranted. IFDs do this to get rid of 'uncomfortable' and 'not-so-pleasant' files.

Table 5.4: Analysis of cases referred to MoF by IFD.

Case type	**Total**	**Referred to MoF**	**Powers**	
			MoF	MoWR
Fund release	731	150	150	Nil
Procurement	754	23	22	01
Foreign Travel	150	25	23	02
Pay matters	100	31	31	Nil
Minor Purchases	500	26	25	01
Total	2235	255	251	04

Source: Adopted from register for movement of files and case files of IFD MoWR

As the finance ministry examines the cases from a broader macro angle the examination of such cases normally take more time. As such a good amount of time is lost if a case gets referred to finance ministry when it is not warranted as ultimately the finance ministry advises to deal with the case using the delegated powers. This is a very critical area and is slightly open to interpretation as the finance ministry instructions are interpreted freely as per convenience by IFD to refer cases to the finance ministry. This leads to a situation of delay in implementation of the desired programme, in few cases surrender of funds and obviously the non achievement of desired outcomes.

Inability to exercise the delegated powers is thus an important indicator for assessing the efficiency of the IFD. This assessment has been made with help of the data available for cases referred to finance ministry by IFD. It may be seen from the table above that IFD-MoWR has invariably exercised the powers delegated to them without any unnecessary reference to MoF. However this position cannot be generalized as this is organization specific and depends to a large extent on the approach taken by individual officers in IFDs. What is perhaps required is a standard procedure for reference to MoF and reduction in scope of open interpretation of MoF instructions.

5.5.3 Quality of financial advice

The qualitative analysis of IFD's effectiveness and efficiency is made through analysis of selected case studies taken from Finance Report (2006-07) of IFD-MoWR. A summary of financial advice rendered by IFD – MoWR in case of selected cases is presented in table 5.5 below. Excerpts of selected cases of financial advice are at Annexure - A.

Table 5.5: Analysis of financial advice given by IFD (2006-07).

Case Study	Subject / Outcome	IFD - Financial Advice
1.Monitoring of expenditure	Budget control resulting in optimum utilization of resources.	a. Persistent shortfall in expenditure to be avoided. **b.** Establish linkage between expenditure plan , physical outputs and desired outcome**.** c. Aviod unnecessary procedural delays to ensure full utilisation of resources.
2.Accelerated Irrigation Benefit Programme (AIBP)	Flagship social sector scheme in irrigation with direct linkage to agriculture.Focus on funding of irrigation projects in pipeline for early completion.	**a.** Focus on completion of ongoing projects. **b.** Aviod thin spreading of resources by proliferation of new projects without completing old ones.

Case Study	Subject / Outcome	IFD - Financial Advice
3. Technical Advisory Committee(TAC)	Investment clearnces to irrigation projects with direct linkage to selection of eligible projects for AIBP.	a. Conditional clearances of irrigation projects to be avoided to ensure that non-eligible projects are not funded through AIBP. b. Revised cost estimates should have required approvals to ensure continued funding.
4. Review of plan schemes.	Efficient use of allocated resources.- direct link to budget management at (1) above.	**a.** Regroup similar schemes to ensure most efficient use of resources. **b.** Effective budget management through reappropriation of funds between schemes.
5.Hydrology project	World Bank aided project for development of a water information system	**a.** Institutionalise the financial management system in World Bank projects. **b.** Ensure capacity building for implementing agencies
6. Information technology	Use of information, communication technology (ICT) as a management tool to enhance efficiency.	a. Establishment of ICT based decision support system b. E-Governance initiatives for cost effective efficient management of resources and effective decision making.
7. Research and Development (R&D)	Development of national framework for reseach in water sector.	**a.** Adhoc approval of R& D projects be avoided and an integrated approach be adopted with linkages to outcomes in water sector.

Source: Adopted from Finance Report 2006-07 of IFD MoWR.

The above details at table 5.5 reveal that IFD at MoWR has rendered some specific and qualitatively appropriate financial advice to the administrative ministry keeping in view the expected outcomes. However, the acceptance and implementation of this advice depend on SMD. It is the experience that many of these advisories are acted upon or implemented in a limited manner. The reasons for such a situation are discussed under the attitudinal problems in the succeeding paragraph.

5.6. Constraints faced by IFD

The analysis of the above does explain that the IFD-MoWR has rendered quite a good number of financial advices aimed at the ultimate objective of achieving desired outcomes. However, is the division viewed as absolutely effective and efficient? The focus group interview reveals that IFD is held responsible for avoidable delays and a lack of positive attitude. To analyze the situation further, it will be worthwhile to look at the constraints being faced by the IFD in achieving its desired targets. The following paragraphs explain the constraints which affect the efficiency and the effectiveness of the IFD.

5.6.1 Attitudinal problems

Even after more than three decades of functioning of the system, the IFD is still not considered a part of the administrative ministry and is looked upon as the representatives of the finance ministry if not as a part of it. The administrative ministry feels that it (IFD) has to be merely tolerated as a necessary evil in fulfillment of procedural requirement. This largely stems from the mode of monitoring expenditure in the Government – the need to approximate expenditure to budgetary outlay – and the puerile way of performance evaluation of projects /schemes (Mohanty Sudhansu, 1998; p.41). These views are also corroborated by the results achieved through the purposive sample survey conducted to assess the efficiency of the IFD. More than 80% of the responses of the 31 officials of SMDs who were interviewed recorded that IFD is independent of the ministry and raises avoidable observations. Highlighting this in his letter to Secretary- Expenditure in response to a meeting agenda on role of FAs, FA-WR also wrote in July 2004 that because of perceived duality of FAs' role, line ministries have yet to accept FAs as a part of their management team. Papers often come to FAs for financial proof-reading at the eleventh hour. It is also not uncommon that FAs receive referrals even on fiscal matters by default rather than by design. Their role often becomes limited to case-by-case examination of proposals for expenditure clearance.

5.6.2 Quality of manpower

A pre-requisite for efficient functioning of the IFD is to have in its ranks officers of an appropriate background in finance and accounts and with requisite experience. This, however does not happen in the placement of manpower in IFD in the context of the ministry. As a result a generalist approach to the subject is adopted in the IFD. The resultant effects of such an approach are already discussed earlier while dealing with the subject matter of dealing with delays in processing of the cases. It is also necessary to ensure that the core staff available in IFDs of ministries, especially economic ministries, has some basic finance background. Their capacity needs to be further built up, soon after their deployment, in the financial matters of the relevant economic sector in which they are working. A professional set up in IFD will ensure more efficient functioning of the division.

5.6.3 Work culture and motivation

The perceived role of IFD and the attitudinal issues don't make posting into the IFD a very sought after career opportunity. Accordingly there is little motivation to learn on the job. As pointed out by FA-WR, placements in IFDs in the ministries are not generally perceived to be lucrative career assignments. IFDs, therefore, often suffer from non-availability of suitably skilled human resources in quality and quantity. To carry out the important mandate given in the background note, it is necessary that FAs are enabled by posting suitable officers in IFD, preferably with accounts - finance - IT background, to work in the desk-officer mode. It is also necessary to launch dedicated refresher courses for IFD officials.'

5.6.4 Lack of proper management information system

Reliable and timely financial information and data for budget planning, monitoring, and expenditure control and reporting are essential elements that positively impact budgetary system and public expenditure management. Lack of such information in an appropriate manner affects management of government resources adversely often causing large buildup of arrears, mis-allocation of resources, poor cash management, unnecessary borrowings, and undermining the effectiveness and efficiency of public service delivery. It also becomes difficult to find accurate and complete account of financial position of the government in a transparent manner, which ensures accountability. Adopting a robust financial management information system is widely acknowledged as an important step that contributes to improved governance, by providing real time financial information for effective administration of programs,development of budget and management of government resources.Computerization of various public expenditure management processes is the core element of such a system. Its integration with other relevant information systems characterizes it as an integrated financial management system and will enhance efficiency and effectiveness of IFD through real time analysis and consequent better decision making.

5.6.5 Weak link with internal audit

The Internal audit is the weakest link in the management chain of the ministries today. No input of internal audit is actually available in taking decisions or rendering financial advice. Internal audits in central government basically a regularity audit, conducted in a routine manner, and the result of this audit on improving the financial management is insignificant. Thus the large numbers of man days devoted to the internal audit in India are not cost effective and involve wasteful use of resources. One of the features of expenditure management in government is the assumption that financial advice and audit are closely linked, and the one emanates from the other. This is underlined by the fact that both the activities are performed by the same authority. As such a positive link between the internal audit and the financial advice will go a long way in increasing the effectiveness and efficiency of the IFD.

6. Findings of the thesis

The analysis of the developments in the IFA system and its functioning through the last five decades reveals that despite initiatives taken by the finance ministry in recent years towards better expenditure management as seen from the steps regarding revising the charter of FAs, setting up a task force for improving internal audit, steps taken towards output/outcome budgeting, etc there has been no systemic look at basic issues involved in expenditure management, barring perhaps sporadic attempts at improving the system through introduction of some budgetary techniques. It is also needs to be realized that only by strengthening financial management system in government sector in India through better expenditure management that 'value for money' for the tax payers' money could be achieved. One has to appreciate that the efficiency and effectiveness of IFD depends on the effectiveness of the system of the IFA and vice versa. Accordingly, macro level reforms in the public expenditure management will have far reaching effects on the efficiency and effectiveness of IFD. The findings of the analysis of the present research on efficiency and effectiveness of IFDs in Government of India on the basis of examination of the available literature, secondary data and the primary data collected are summarized below. These conclusions are both in the nature of the macro and micro analysis focusing on the efficiency and effectiveness of the IFDs in the central ministries and the IFA system as the functional efficacy of IFD lends itself to the success of the IFA system.

The study indicates that the IFDs in the central ministries of Government of India function in line with their mandate and within the given framework of the existing system. However, the efficient functioning of IFDs is very much dependent on the overall framework of the financial administration and reforms in the sector. Accordingly, the following findings are arrived at-

- **a.** The IFDs in the central government of India would have to play a more proactive role in the financial management of various organizations, by introduction of an expenditure management system, which are based on sound principles of public finance and at the same time innovative in outlook.
- **b.** A piecemeal approach to reforms in public expenditure management would be ineffective. What we need is a more coherent approach to expenditure management, with a view to bring about systemic change in the process of expenditure decision making and control, so that reforms in various

components relating to financial management, fall in place and reinforce each other within an overarching concept and philosophy.

c. Internal audit is the weakest link in the chain, which requires immediate attention by undertaking suitable reform measures. Internal audit should be regarded as an integral part of financial management system. The modern concept of internal auditing goes far beyond its traditional limits. Internal audit is no longer considered as a mere routine review of financial and other records by specially assigned staff. The institute of internal auditors, Florida, USA (1978, p.1) defines the scope of internal auditing as the examination and evaluation of the adequacy and effectiveness of the organization's system of internal control and the quality of performance in carrying out assigned responsibilities. Thus, internal auditing in corporate world is concerned with an evaluation of both internal controls as well as the quality of actual performance. The proper role of internal audit is to assess and report on internal control system of an organization. It is to be treated as an important tool of the management to remove the weaknesses existing in the control system of the organization. The mandate of internal audit should emanate from the top management. The report of internal audit on assessment of various aspects of internal control system should receive the attention of the top management, to take necessary corrective measures. We are yet to recognize the importance of internal audit in improving the financial management system.

d. As analyzed in Chapter-5, without an outcome oriented budget system and its linkages with micro level functioning, the efficiency of IFD is seriously limited. Evidently, the budget today ceases to be an aid in decision-making in clearance of proposal. It also means that unless the budget formulation is re-oriented by bringing in the programme concept focusing on costs of programmes in a multi-year framework, which are prioritized within the ceilings indicated by MoF, the financial advice rendered by FAs would be piece-meal and would not be helpful in achieving value for money. Therefore, reforming the budgetary process is central to reforming the financial management system. This would increase the efficiency of IFDs in the scrutiny of proposals as it was envisaged under the 1975 letter introducing the IFA system. Merely changing the format of the budget, and/or the budgetary process would not be enough to bring about necessary reforms in financial management if the aim is to achieve the value for money and delivery of service at economical cost. Important institutional changes are required backed up by suitable legislation, if the reforms measures in financial management are to get necessary boost and become self-sustaining.

e. IFD's efficiency is also dependant on existence of a suitable integrated system of information management. At present, there is a clear absence of an integrated financial management information system, which supports public expenditure management process that includes budget formulation, budget execution, accounting and reporting and internal control and audit processes. For example, there has been a proliferation of schemes involving direct release of grants to non government organizations (NGOs) in various ministries. It may not be uncommon to find some NGOs receiving grants for the similar project from many central agencies. While the role of NGOs in social development cannot be denied, the interface of the central government with them needs to be better structured .In a Government environment this basically means integration of information systems of core financial management activities carried out by several agencies such as planning, budget formulation and execution, cash management, debt management, treasury systems, accounting and reporting, and sub-systems such as revenue realization, human resource management, payroll systems and pension.

f. The need for enactment of suitable legislation for strengthening the financial management system is a must. It should indicate the role of each functionary, stress the need for established proper financial and accounting standards, and indicate improvement in the financial reporting system including the cost information. The Act should also emphasize the need for strengthening internal control and internal audit.

g. At present, there is an absence of a professional set up in IFDs and has resulted in a certain amount of amateur decision making. In a system where a lot depends on the IFD's analysis, it is recognized that the, financial management in public sector can no longer be treated as function of generalist officers. In India, there is no separate cadre of financial advisers. There is also no institutional arrangement for capability building of FAs. The lack of attention to the technical and professional skills of FAs compares unfavorably with the heavy and technical nature of responsibilities required of them. There are several ministries having a predominantly public sector presence. Government has vital stakes in their efficient operations. The government has to undertake systematic and in-depth review of their performance from time-to-time. In the present set up of integrated finance wing, which have no management and cost accountants as part of the team, such reviews can be done only superficially.

7. Conclusions and Recommendations

The history of IFA system reveals that the qualities of adaptability and flexibility will enable the system to not simply remain viable, but also to become a best-in-class provider of finance and accounting services. It is recognized that IFD must use its strategy as a navigational tool in order to make it manifest in every aspect of its business routine. However, a strategy can only succeed through its successful implementation. In addition, unless the strategy is passionately articulated throughout the organization, it will not be actionable or measurable. Every successful organization or business entity identifies and commits to three to five organization-wide initiatives that are indicative of organizational success. These initiatives are critical to measuring the viability of an organization and require the full commitment and support of top leadership. To that end, IFD should be focused on implementing the following four key crosscutting initiatives as outlined below.

a) Develop and implement a communications strategy;
b) Put in place a system to motivate success by ensuring that the required processes and systems are in place;
c) Implement business process re-engineering (BPR) by replacing select internal management and information systems;
d) Implement the designed procurement system as per provisions of GFR and DFPR.

These initiatives are critical to the success of IFD as a top-class provider of finance and accounting services. This strategic plan should describe how IFD will leverage its people, technology and processes to achieve its goals. It further describes how IFD can continue to find new and creative means of reducing costs, consolidating redundant systems, eliminating unnecessary processes, and improving upon existing core functions. In keeping with this plan, IFD should strive to incorporate best practices from government and private industry both at a national and international level to ensure success. This plan should also serve as the catalyst for implementing specific actions and principles to make the vision a reality. It will guide IFD toward improving employee retention, development of professional competence, customer satisfaction, and enhancement of operational capabilities. It should underscore accountability, through measurement, for superior performance.

To this effect the present study suggests a two pronged approach to enhance efficiency and effectiveness of IFD. A systematic management framework based on balanced score card approach can be adopted by IFD supported with sectoral reforms. The proposed management framework and specific suggested reform initiatives in financial management are outlined below.

7.1 IFD – Balance Score Card approach

The above analysis suggests that to be efficient in a rapidly changing scenario, the IFDs must continually strive to improve their professional practices within each of their major activity lines like budgeting, financial advice, accounting services, pay services,etc and also within the internal support services e.g., resource management, human resources, information technology. For this purpose a strategic plan describing how IFD will leverage

the existing set up and technology, not only to meet and exceed expectations, but also to excel as a professional outfit is perhaps required to be designed. In designing such a strategy one needs to analyze the current state, articulate its future state and more importantly identify the case for a change. To do so it is desirable to build on strengths and to create new synergies to advance the desire to be more customers focused, the customer in this case being the administrative divisions. As a key to such initiative, one can think of adopting the balanced scorecard process. The balanced scorecard will provide a consistent view of organizational performance (Kaplan and Norton, 1992; p.71-79) and enables IFDs to measure the most pertinent areas supporting the mission and vision of the IFDs. The first step in designing and rolling out the balanced scorecard is to understand and identify the four broad areas, or perspectives, to be measured i.e. customer, financial, internal processes, and growth and learning. At the same time, feedback mechanisms are to be established to ensure progress in these areas and alignment to the desired strategy. The current approach is adopted from a model practiced by Defense Finance and Accounting Service (DFAS) an agency of the United States Department of Defense.

The IFD's mission and vision should reflect a conscious decision by IFD to become more customer-focused. The IFD strategic plan may focus on goals and objectives to advance the IFD mission and to attain the vision of efficient financial administration. Through the balanced scorecard process, individual desks are expected to participate in developing goals and objectives, linking all IFD organizational initiatives together. Additionally, IFD should also strive to achieve and maintain the desired level of excellence in the finance and accounting of the ministry. In this process the IFD may utilize the experience of national and international organizations and best practices as gauges to measure performance. It should be understood that the strategic plans and processes only work when embraced by all the employees in the organization and integrated into their day-to-day events. This strategic plan should be communicated in a way that enhances employees and managers understanding of the proposed strategy, calling them to action. Various methods of communication including face-to-face interactions as well as electronic and print media should be employed. In addition, and most importantly, communication should be leadership driven. The strategic plan is the framework that all employees and managers shall use for creating their activity planning processes.

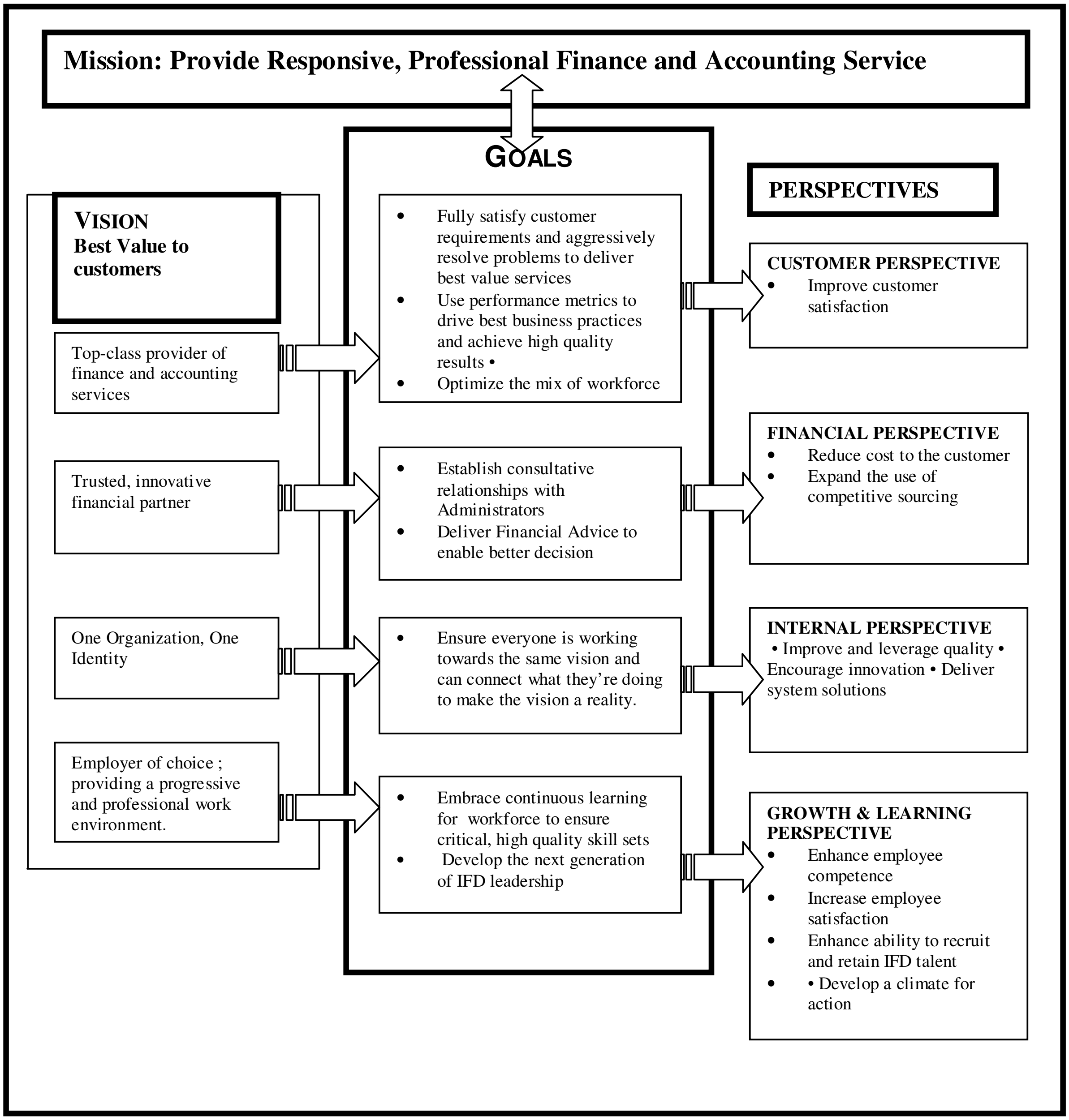
This plan is to be monitored quarterly, reviewed annually and updated every five years. As the IFD will be engaged in an intensive process of strategy development, implementation and renewal, IFD Strategy should comprise of a mission, vision and goals.The goals shall be supported and achieved through their respective balanced scorecard objectives. All of these areas are to be guided and supported by a set of core values. IFD strategy should be designed to deliver the best value to the customer.

Throughout the process of defining IFD's direction reliance on a matrix of core values like integrity, innovation, commitment to service, etc will be placed when making decisions. As seen from the analysis presented earlier, The IFD's customer and stakeholder constituencies have complex and have constantly evolving requirements. IFD should be committed to effectively taking on the challenge of constant change within the framework of a continuous process of strategy renewal. IFD'S strategy should be comprised of a mission to provide responsive, professional finance and accounting services for the administrative ministry; a vision for best value to customer i.e. effective and efficient provider of finance and accounting Services; providing a progressive and professional work environment etc. To do so IFD should embrace continuous learning for its workforce to ensure critical, high quality skill sets and also develop the next generation of IFD leadership.IFD should consider employing the balanced scorecard methodology to measure organizational performance and track progress in achieving its strategic goals. The goals embodied in the strategy can be divided into a four-perspective view of organizational performance. The perspectives are-

a) Customer - Focuses on organizational performance as perceived by the customer
b) Financial - Measures the traditional fiscal health associated with organizational performance
c) Internal Processes - Measures internal business practices and system processes for efficiency and effectiveness
d) Growth and Learning - Measures progress towards achieving the attraction, development and retention of IFD's employees

Each perspective contains unique objectives. Objectives are the means whereby IFD will achieve its strategic goals. The IFD's scorecard will be continuously monitored and revised based on identified priorities. The scorecard will be used as the basis for other unit scorecards to cascade performance measures and track action plans throughout the entire department. IFD will measure progress toward achieving goals through the balanced scorecard objectives. The goals provide linkages from the IFD'S vision to objectives, and the goals shall be cross-linked to the objectives at the organizational level.

Figure7.1: Linkage of IFD Mission – Vision – Goals – Perspectives



Source: Adopted from Defense Finance and Accounting Service (DFAS) Strategic Plan 2001; pp.12-16

Figure 7.2: Linkage of Perspectives – Objective – Measure

Perspectives	Objective	Measure
Customer	Improve the client/customer satisfaction	• Client/customer satisfaction
		• Commitments met – IFD performance indicators
		• Commitments Met – Interpersonal Relation with SMDs
Financial	Reduce cost to client/customer	• Total costs
	Expand the use of competitive sourcing	• Competitive sourcing performance
		• Total workforce ratio
Internal process	Improve and leverage quality	• Quality index
		• Rework identified
		• Rework eliminated
		• Best business practices adopted
	Encourage innovation	• Services delivered
	Deliver system solutions	• Commitments Met – System Milestones
Growth and learning	Enhance employee competence	• Employees in developmental assignments
	Increase employee satisfaction	• Employee satisfaction
	Enhance ability - recruit and retain talent	• Core competency profile
	Develop a climate for action	• Climate for action

Source: Adopted from Defense Finance and Accounting Service (DFAS) Strategic Plan 2001; pp.12-16

Figure 7.3: Linkage of Objective - Goals

	Customer	Financial		Internal Processes			Growth & Learning			
Objective **Goal**	Improve Customer Satisfaction	Reduce Cost	Increase use of Competitive sourcing	Improve Quality	Encourage Innovation	Delivery system Solution	Enhance employee Competence	Increase employee satisfaction	Enhance ability to retain talent	Develop a Climate for action
Fully satisfy customer requirements and aggressively resolve customer problems to deliver best value services	X	X		X	X	X				X
Use performance metrics to drive best business practices and achieve high quality results	X	X		X	X				X	X
Optimize the mix of workforce	X	X	X	X	X					X
Establish consultative relationships with leaders	X				X		X	X	X	X
Deliver Professional Financial Advice to drive better decisions	X			X	X	X				
Ensure everyone is working toward the same vision and can connect what they are doing to make the vision a reality	X	X	X	X	X	X	X	X	X	X
Embrace continuous learning for the workforce to ensure critical, high quality skill sets				X	X		X	X	X	X
Develop next generation of IFD leaders				X			X	X	X	X

Source: Adopted from Defense Finance and Accounting Service (DFAS) Strategic Plan 2001; pp.12-16

7.2. Suggested reforms in financial management

In addition to an efficient management framework as enumerated above , it needs to be realized that only by strengthening financial management system in government sector in India through better expenditure management that ‘value for money’ for the tax payers’ money could be achieved and the goals and objectives outlined in the management framework can be realized . One has to appreciate that the efficiency and effectiveness of IFD depends on the effectiveness of the system of the IFA and vice versa. Accordingly, macro level reforms in the public expenditure management will have far reaching effects on the efficiency and effectiveness of IFD. Accordingly the following specific recommendations are made.

a. The term ‘Financial Adviser’ in the international financial circles conveys a different meaning, with specific professional accountability. In Indian official context, it indicates – perhaps unwittingly- an open-ended optionality about their role itself in the scheme of things. FA’s responsibility and accountability as Chief Financial Officers (CFOs) in their respective ministries should be supported by appropriate legislation. The CFO Act of 1990 of USA would be a good place to look at while doing so. After this Act, each federal agency is statutorily required to appoint a CFO with well-defined responsibility and accountability. Subsequently, in the aftermath of Enron accounting imbroglio, the US Congress has passed another law - the Sarbanes-Oxley Act of 2002 – which mandates definite professional and professional accountability on CFOs of publicly held companies.

b. FA’s duty, responsibility, and accountability in budget formulation and monitoring of expenditure needs to be secured more explicitly by formal government orders. There is also a need to secure an accountability-oriented formal involvement of FAs in formulation of schemes from the beginning, through executive instructions at the highest level. The ministry/department concerned must lay down its performance goals or outcomes that it wants to achieve and establish a link between performance indicators and budgeting.

c. Much public investments have gone into procurement of IT resources in the government. This investment is arguably not commensurate with the level of systems applications and usage. IT management should focus on optimization of investments in IT resources by coordination among program divisions, through IT-oriented business process re-engineering.

d. In administration of transfer of fiscal resources, especially, IT applications must substitute the archaic manual process and delivery systems which often lead to inexplicable delays. These delays often can lead to shifting of expenditure and programme cycles, and to falsification of the legislative mandate implied in the budget approved by the Parliament.

e. The present system of cash management can and must also be significantly improved by innovative application of IT in overall financial management in the ministry in particular, and in business processes transactions in general.

f. In an unmanageably diffused and thinly spread system of administration of transfer of central fiscal resources, there are natural limitations on the quality of financial concurrence which FAs are forced to give now and then. To ensure better management of government fiscal assistance, the distance between the granting authority and the recipient agency should be minimum. Many ministries have come to transfer central financial resources directly to various 'government - semi-government - non-government' agencies, to tide over the 'problem of the state governments'. Howsoever necessary as a short term measure, such fiscal transfers are in conflict with the spirit of federal financial structure implied in the Constitution. Without fiscal, operational, and supervisory intermediation of the states, it would be difficult for the central ministries to monitor fruitful end-use and the desired outcome of the sanctioned central assistance. In the long term, therefore, one has to come up with a methodology to force the state governments to take forward specific purpose central grants for their timely intended use.

g. Internal audit is the weakest link in the management chain of the ministries today. The function of internal audit is the responsibility of FAs; but their internal audit resources are very meager, if not absent altogether. It is necessary that an appropriate percentage of every plan scheme is kept aside for their value-for-money appraisals in a structured way. IFD should coordinate this activity in association with carefully selected evaluation consultants, where necessary, in a planned manner with involvement of top management.

h. It is necessary to ensure that the core staff available in IFDs of ministries, especially economic ministries, has basic finance background. Their capacity needs to be further built up, soon after their deployment, in the financial matters of the relevant economic sector in which they are working. Placements in IFDs in the ministries are not generally perceived to be lucrative career assignments. IFDs, therefore, often suffer from non-availability of suitably skilled human resources in quality and quantity. To carry out the important mandate given, it is necessary that FAs are enabled by posting suitable officers in IFD, preferably with accounts - finance - IT background, to work in the desk-officer mode. It is also necessary to launch dedicated refresher courses for IFD officials to equip them with necessary skills by conducting training programmes at both national and international levels.

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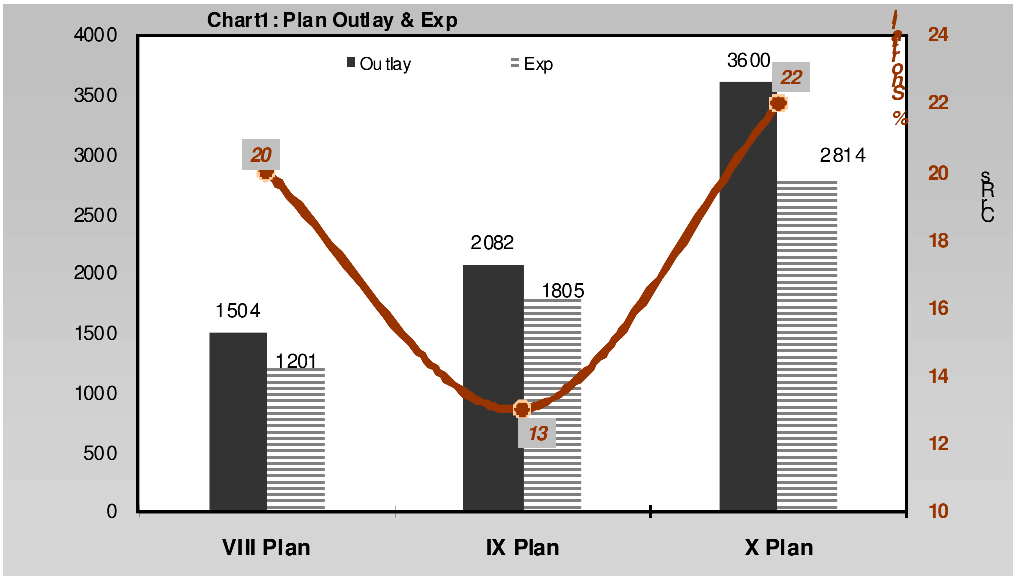
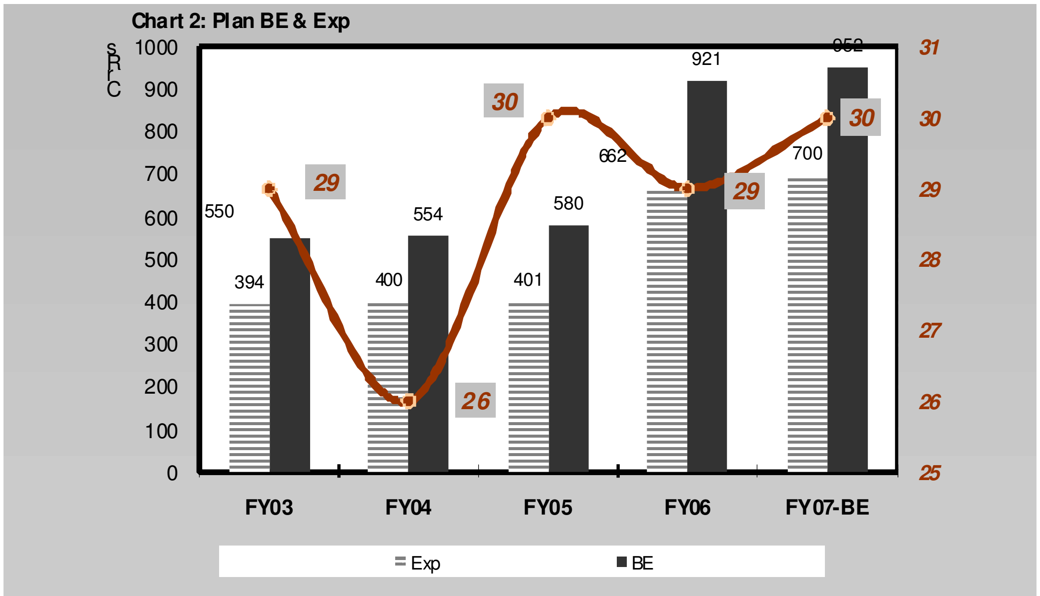
Annexure : Excerpts from Finance Report (2006-07) of IFD-MoWR

Case Study I : Monitoring of expenditure



Size of MoWR's budget does not really reflect the real breadth of its functions with direct public finance ramifications. X plan outlay of MOWR is ~Rs 3600 Cr. BE for the plan schemes as reflected in MoWR's budget for FY07 is Rs 700 Cr. But the financial size of plan schemes in the water resources sector being handled by MoWR is much larger. All things considered, it would be of the order of Rs 3050 Cr (= Rs 700 Cr in its own budget for CS & CSS + Rs 2098 Cr for grant component of AIBP in MoF's budget + Rs 252 Cr for 4 'state sector' schemes in MoF's budget) for FY07. From that (budget) point of view, the role of the Ministry of Water Resources (MoWR) would seem to be limited to administration: (i) of transfer of fiscal resources to the states and UTs through its plan schemes; and, (ii) of central sector (CS) schemes for undertaking technical projects, training, surveys, and research studies through its attached, subordinate, and associated (central) bodies. But, MoWR also technically administers the Accelerated Irrigation Benefit Programme (AIBP); and Plan Finance-I (PF-I) Division of the Ministry of Finance (MoF) issues sanctions to the applicant states on MoWR's recommendations. Annual releases in AIBP outstrip MoWR's annual plan expenditure many times over . Going by X Plan Outlay, MoWR's average annual plan size and expenditure ought to have been ~Rs 720 Cr/pa (excluding AIBP).X plan allocation is almost evenly divided between the central sector and CSS. Yet, the average annual plan expenditure during last 5 years was ~Rs 450 Cr. Delayed approval of major plan schemes was the main reason for shortfall of expenditure. Another reason was usual delays associated with the administration of CSS, owing largely to difficulties in getting workable proposals in time from the state governments.Chart 2 depicts the year wise position of BE, and actual expenditure in the X Plan period.



Interestingly , MoWR has a history of suboptimal use of its plan allocations. The ministry has utilized ~ 80 – 85 % of its plan outlay in VIII and IX Plan period. In Chart 1 alongside, the projected shortfall of 22% is based on very optimistic presumption that MoWR would spend its BE07 fully. Advising the SMDs on this matter IFD stated that , there is much need to rationalize the number of plan schemes, and to improve upon their technical administration at level of the subject matter divisions (SMD), as also by associated agencies of MoWR, especially as we move on towards XI plan. During FY06, MOWR had to surrender ~ Rs 259 Cr (Rs 112 Cr in Central Sector /CSS and Rs 147 Cr in State Sector) i.e. ~30% of the approved plan BE06 of Rs 921 Cr (Rs 621 Cr in Central Sector /CSS and Rs 300 Cr in State Sector). The following were the main reasons of shortfall in expenditure vis-à-vis BE06 (a) Late approval and Non-approval of projects (b) Slow progress in execution of contract works (c) Less expenditure in works (d) Delays in processing of various procurement proposals (e) Lack of appropriate proposal from states.Highlighting the main issues relating to Annual Plan Expenditure of this Ministry IFD advised that:

a. Parliamentary Standing Committee on MoWR has been adversely commenting on persistent shortfalls in MoWR's actual expenditure (AE) vis-à-vis BE. In our 'savings notes' to CAG, MoWR has been promising better budget planning and management every year. Should Public Accounts Committee (PAC) decide to discuss MoWR's budget management, it would be hard to defend the budgetary performance. MoWR also have been facing adverse weather in defending our BEs in mid-year revised estimates (RE) meetings of MoF. Further shortfalls in AE would lead to major surrender from X Plan allocations and would be perhaps embarrassing.

b. FRBM Act enjoins upon the ministries to fruitfully consume not less than 2/3rd till the end of the third quarter, i.e. till end-December. This requires us to show improvement in the quantity and phasing of expenditure. In other words, we must have firm expenditure plans in place to spend ~Rs 639 Crore till end-December 06, and not less than ~Rs 426 Crore by end-September 06. Further, this expenditure must reflect 'real' expenditure, and not any 'parking of funds' with the grantees. We have booked expenditure of ~Rs 180 Cr (~ 26 % of BE) till Sept 06. This is not a good expenditure performance. SMDs had been advised by IFD to work in the real earnest with the states and MoWR associate bodies; to obtain from them firm plans of expenditure and of physical progress; to proactively pursue the schemes to ensure optimum utilization of budget; and, to caution the grantees that any laxity in physical and financial progress would lead to forfeiture of their respective annual grants allocations.

c. BE07 includes outlays of ~ Rs 225 Crore for 2 revised plan schemes in Flood Control i.e. critical anti-erosion works in Ganga Basin and in Bramhaputra & Barak valley which are to be approved in cabinet. These schemes also envisage a more proactive role for the two central agencies, Bramhaputra Board and Farakka Barrage Project (FBP). SMDs need to move to obtain required approvals, and to strengthen management infrastructures.

Case Study II: Accelerated Irrigation Benefit Programme

To realize the targeted irrigation potential from long pending projects - created at huge original public investments, but languishing for a variety of reasons - the Government of India (GOI) launched Accelerated Irrigation Benefit Programme(AIBP) during 1996-97. The twin objectives of AIBP were (i) to accelerate completion of ongoing irrigation projects and (ii) to realize bulk benefits from completed irrigation projects. AIBP envisaged providing Central Loan Assistance (CLA) to states. MoF issues financial sanctions, based on MoWR's recommendations which, in turn, are based on monitoring reports filed by CWC's regional offices. To date, central releases in AIBP are ~Rs 20, 000 Cr. AIBP has been revised many times since inception. In IFD's view, some major steps would be necessary for taking AIBP further in to XI Plan. Ever since its inception in 1996 there has been no systematic internal review of AIBP. The only available review is an external performance review by CAG, covering the period from FY97 to FY03. CAG has conducted that review on all-India basis. Detailed findings have appeared in the respective State Audit Reports. The central audit report – presented to the Parliament in July 04 –additionally contains observations on how the scheme had been administered and monitored at the central level.Various Parliamentary Committees, including PAC, and other opinion-leading public forums on irrigation, have taken active note of that report. MoWR is also likely to be subjected to detailed interview by PAC on it. Besides some significant observations on monitoring, CAG's central audit report makes telling points about sanction of ineligible projects, and other administrative distortions. In reply to CAG, it was assured that MoWR would strengthen its systems for administration of AIBP. In pursuance of that assurance, IFD had presented a note on AIBP in Sept 04 along with an action agenda. The essence of IFD's views on AIBP could be summarized as follows: (a) Irrigation investment is pre-eminently a matter of State Plan. The States are expected to commit necessary resources for that purpose from their Plan resources for which also they receive central fiscal transfers, including Finance Commission allocations and non-discretionary fiscal transfers of Planning Commission. (b) It is generally accepted that the states have taken up irrigation projects not exactly in response to the proven demand, often without necessary statutory clearances, and without the basic administrative spade work. They have spread their resources thinly over many irrigation projects; and, have lost interest in completing those to fruition after the main investment streams had dried up. (c) Be that as it may, it was in consideration of containing huge national expenditure in incomplete irrigation projects, that AIBP was launched in 1996. It was a correctional facility to the States by way of shared central loan assistance to begin with. It was never intended to be a collateral *ab-initio* funding of irrigation projects in the states (d) During its progression in IX & X Plans, however, AIBP has been subjected to many revisions (e) AIBP revisions have interfered with the essence of federal financial structure in so far plan funding of irrigation projects is concerned, to the detriment of outcome-oriented accountability for corresponding public outlays. (f) Apologists of increased central fiscal flows for irrigation projects through discretionary transfers *via* AIBP have sought to justify progressive softening of AIBP, on account of poor fiscal conditions in the States during later 90s and a few years into X plan. (h) IFD's cited position paper brings out how even AIBP outlays have come to be thinly spread over various projects, compounding the problem which AIBP had set out to correct. Beginning FY06, AIBP has become an outright grants-in-aid scheme to the states. The need was never greater to tighten the central administration of this outright grants scheme, and to make it applicable strictly on reimbursement basis, on proven performance certified by CWC on the basis of improvised monitoring. (i) For continuation of AIBP in the XI Plan, it must be thoroughly revised, and presented before the Cabinet only after undertaking full due diligence required.

Case Study III: Technical Advisory Committee (TAC)

Closely linked to the issue of AIBP is the matter of investment clearance of States' water resources projects by PC. That clearance requires prior consideration and clearance by TAC of MoWR. TAC is an inter-Ministry committee, set up by a

Government resolution of Nov 1987, to substitute an advisory committee in PC. TAC considers techno-economic viability of major/medium irrigation, flood control and multipurpose project proposals presented to it by respective states. Secretary-WR chairs TAC. From MoWR, JS-FA is only other member of TAC. JS-FA also often represents Secretary-Exp in TAC. Chief Engineer (CE) of CWC is its member-secretary. Going by the magnitude of public investments at stake and the concomitant projected economic benefits, TAC may arguably be the most important function of MoWR, especially in so far as bringing some semblance of rationality in taking up capital intensive water resources projects by the States. Existing arrangements in MoWR and at CWC, in this regard, need much strengthening. TAC needs to discharge its responsibility in a more holistic manner. IFD has also made detailed recommendations on increasing the effectiveness of TAC *vide* its recent notes to Secretary-WR. JS-FA's letter of June 06 to Secretary- Exp on functioning of TAC is very relevant in this context. While further deliberations would hopefully follow, some important decisions had already been taken; e.g., (a) medium irrigation projects will be sent to IFD for appraisal, as was being done previously (b) required clearances, including that of State Finance, should be in place before the agenda notes for the TAC Meeting are circulated.

Case Study IV: Review of plan schemes

The reasons for a low expenditure profile for MoWR in X plan perhaps lies in the large number of plan schemes being administered by the Ministry with little scope for re-appropriation of funds within the schemes and has led to inefficient use of allocated budget. To ensure smooth administration of the plan schemes there is a need to limit the number of plan schemes. Also, the existing classification of plan schemes needs a relook as the nomenclatures of existing six sectors does not really reflect the coordinating and policy planning role of MoWR at the national level. IFD has submitted a note to the Secretary in this regard. That note suggests a possible regrouping of MoWR's plan schemes into sectors such as Flood Management Sector, Water Use Efficiency Sector, R&D Sector, Water Information Sector, and General Administration Sector. Also, simultaneously a suitable restructuring of the Subject Matter Divisions and re-working of accounts classifications could be carried out to correspond to the sectoral responsibilities in a more focused and integrated manner.

Case Study V: Hydrology project

The externally (World Bank) aided HP-II project has formally begun from May 06. Implementation review mission of the World Bank has identified time-lined key action areas for the project. The project envisages establishment of a dedicated finance desk in MoWR to coordinate all financial management activities of the project, and provide the World Bank with a unified interface for financial progress in HP-II. Accounts wing of Finance Division developed and circulated a draft Financial Management Manual (FMM) amongst implementing agencies. The draft FMM and other important issues relating to financial management and reporting of HP-II were discussed in a 3-days workshop organized by Finance Division during 11-13 Sep 06. Delegates from all IAs actively participated in this workshop. A time bound action agenda is being pursued by IFD for taking financial management of HP-II forward across various IAs which include, besides MoWR institutions, other important central agencies and participating States.

Case Study VI: Information Technology (IT)

HP is essentially an ambitious national project to establish information and communication technology (ICT) based hydrological information system for national water resources management. It provides an opportunity to MoWR to lead from front by setting its own ICT affairs in order, along with those of its associate organizations. There is little ICT application at present, even though much resource has been spent in procuring hardware etc. In the past, IFD had taken some initiatives on ICT management going, beyond the call of its usually assigned duties. Controller of Accounts (CA) had coordinated preparation of Information Strategy Planning (ISP) for the Ministry in July 2003. He also assisted Administration Division to put together revised SFC Memo for IT Development in the Ministry. Pursuant to those initiatives, a Systems Cell had been set up in the Administration Division, and MoWR's website has shown some improvement. JS-FA had sent notes on IT management in MoWR to Secretary in July 04 and Oct 04. Likewise, much more meaningful action is required in this regard in our associate bodies. Little action has however followed on that letter. Faster action is needed to bring about e-governance and to establish IT based decision support and communication systems, to do justice to the vast IT resource available in MoWR and its associate bodies, probably with professional outside help.

Case Study –VII: Research & Development (R&D) Scheme

Development of a national framework for water resources R&D, and coordinating projects in this important subject matter in public institutions at various levels, is arguably one of the most appropriate areas of intervention by MoWR. The report of the National Commission for Integrated Water Resources Development of 1999 had delved in this important subject matter in great detail. MoWR did have a plan scheme on R&D with paltry allocations. That plan scheme only involves giving financial grants to various R&D project proposals in a rather disjointed way. Early in the X plan, Secretary-WR had accepted premise contained in IFD's note of 06 Feb 2003 that MoWR needed to review present arrangement of continuing with the existing R&D scheme, which only involved funding an array of R&D project proposals on case-to-case basis. After that IFD had submitted a series of notes on the subject culminating in a R&D discussion paper dated April 2004. Pursuant to that paper, a vision document for R&D programme of MoWR was prepared and approved by the Secretary. Later, IIT- Roorkee was entrusted with a comprehensive evaluation of MoWR's R&D scheme. They have submitted their report. It is necessary that all the above inputs are used to formulate MoWR's national role to coordinate water resources R&D across central and state governments, institutions, academia, etc.; and, to devise an integrated national water resources R&D scheme which could be taken forward in XI Plan in a really meaningful way.