

CHAPTER I

INTRODUCTION

1.1 The institution of the Integrated Financial Advisor (IFA) in the Central Government occupies an important part in its overall financial management system. Traditionally, public financial management systems comprise of activities of resource generation, resource allocation and resource utilization. In the context of resource utilization, also referred as expenditure management, the IFA is called on to play an important role. However, the role of the IFAs in the Central Government ministries and departments has also extended to preparation of budget of department/ ministry as also to distribution of budget allocations to its various wings. To that extent, the role of IFAs has also been of importance in the context of resource allocation in the Central Government. The inputs of the IFA play a major role in securing value for the money paid by the taxpayers. The advice given by the IFA is an important factor in determining the efficiency and effectiveness with which publicly financed activities are conducted.

1.2 The present system of integrated financial advice in the Central Government ministries/ departments is broadly on the pattern evolved in 1975. Prior to that, there was an 'associated' financial advisor for a ministry, who functioned as an official of the Ministry of Finance, advising the respective administrative ministry in exercise of powers that were vested with the Ministry of Finance and beyond the powers delegated to the administrative ministries. The powers within the delegated powers of the administrative ministry were exercised with the advice of the 'integrated' financial advisor, who functioned as a part of the respective administrative ministry. In the context of Government policy to delegate enhanced financial powers to administrative ministries

to match with their responsibilities, it was felt that the financial competency of the ministries should also be improved by integrating the functions of the 'associate' financial adviser of the administrative ministry in a single official, forming part of the administrative ministry. It was also felt that the IFA system would enable the administrative ministry to play a more effective and constructive role in its developmental activities. The new scheme of Integrated Financial Adviser was announced in October 1975. Under this scheme, the IFA is responsible both to the administrative ministry and the Ministry of Finance (MoF). With his/ her assistance the administrative ministry could freely exercise the delegated financial powers. Further, the delegated powers have been substantially enhanced from time to time.

1.3 The duties and responsibilities of the IFAs as envisaged by the Central Government are as follows¹:-

- i. To ensure that the schedule for preparation of budget is adhered to by the Ministry and the Budget is drawn up according to the instructions issued by Finance Ministry from time to time.
- ii. To scrutinise budget proposals thoroughly, before sending them to Ministry of Finance
- iii. To see that complete departmental accounts are maintained in accordance with the requirements under the GFR. It should in particular be ensured that the Ministry not only maintains account of expenditure against the Grants or Appropriations directly controlled by it but also obtains figures of the expenditure incurred by the subordinate offices so that the Ministry has a complete month-to-month picture of the entire expenditure falling within its jurisdiction.

- iv. To watch and review the progress of expenditure against sanctioned grants through maintenance of necessary Control Registers and to issue timely warnings to Controlling Authorities where the progress of expenditure is not even
- v. To ensure the proper maintenance of Register of Liabilities and commitments as required under the GFRs
- vi. To screen the proposals for supplementary demands for grants
- vii. To formulate the foreign exchange budget for the Ministry and to process individual cases for release of foreign exchange
- viii. To advise the Administrative Ministry on all matters falling within the field of delegated powers.
- ix. To identify, in particular, specific savings in cases of creation of posts and to maintain a Register for this purpose
- x. To scrutinise proposals for re-delegation of powers to subordinate authorities.
- xi. To keep himself closely associated with the formulation of schemes and important expenditure proposals from their initial stages.
- xii. To associate himself with the evaluation of progress/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
- xiii. To watch the settlement of audit objections, Inspection Reports draft audit paras etc.
- xiv. To watch prompt action of Audit Reports and Appropriation Accounts, Reports on Public Accounts Committee, Estimates Committee and Committee on Public Undertaking

- xv. To screen all expenditure proposals requiring to be referred to Finance Ministry for concurrence or comments
- xvi. To ensure regular and timely submission to Finance Ministry of quarterly staff statements and other reports and returns required by Finance

Statement of the Problem- Scope and Rationale for Research

1.4 The charter for IFAs has evolved further as a result of Government orders issued in June 2006. The recent orders on the IFA system and the present structure of IFA set up in different ministries are covered in the Chapter 2. Suffice it to say, the evolution of the charter of IFAs in the Central Government has been towards that of a facilitator for informed decision-making. The IFA is expected to be a part of management decision making, while retaining his unique status as an independent advisor. In the ultimate analysis, the IFA scheme should add value and improve overall governance. The test of the efficacy of the scheme lies in whether it makes the delivery of public services more economical, efficient and effective.

1.5 On paper, the rationale of the IFA scheme is faultless, as it serves as an important tool for internal control in the decision-making process. However, it is the practical aspect of the system in its actual working that can be a matter of legitimate interest.

1.6 Much of the literature on the working of the Integrated Financial Advisor System in India has focused on its theoretical foundations. Practical aspects of working of the IFA system are generally confined to in-house deliberations within the MoF or other agencies within the Government. Feedback on the efficacy of the system in its actual working, whether from the IFAs themselves or from the administrative ministries is more often not available in public domain.

While the MoF came out with a revised charter of IFAs in June 2006, the orders did not fully cover the problems that were identified by the MoF in the working of the system. Some information on the problems facing the system, from the perspective of IFAs, is available in the proceedings of workshops on the role, accountability of financial advisors held by the National Institute of Financial Management in September 1997² and May 2005. However such insights on practical working of the IFA system are far and few.

1.7 Expectedly, the literature that is available on areas related to IFA's functioning focus on experiences of reforms in important areas of financial management in Government. These range from introduction of accrual system of accounting, reforms in budgeting and concepts as zero based budgeting, outcome budget, performance budget etc. The importance of each of these areas needs no emphasis.

1.8 However an area on which the available literature tends to be more anecdotal and sketchy is the role played by the IFA in sanction of expenditure proposals. Each proposal in the Government entailing substantial expenditure from public funds must pass through the stage of financial scrutiny. With enhanced powers delegated to the Ministries/ Departments, most often these proposals will have the concurrence of the Integrated Financial Advisor of the Ministry (Such proposals may be procurement cases, works, contracts, new schemes/programs etc.) An important stage in each such case before it sees the light of the day is the examination by the IFA from financial angle. In all such cases, the IFA is meant to play an advisory role and the responsibility of the final decision vests with the Administrative Ministry or its Secretary. In cases of difference of opinion between the Secretary/ Administrative authority and its IFD, the Secretary/ Administrative authority can overrule the FA

in writing. It remains open for the FA to report such cases to the Ministry of Finance.

1.9 Experiences from working of various ministries/ departments would show that cases of difference of opinion between the IFA and the administrative ministry, as would need a resolution by MoF, have been unheard of. However, this in itself may be far from indicative of a smooth working of the system. Often, the officials working in the administrative wings of the Central Government do not perceive the IFA to be integrated to the decision-making process. It is not unusual to hear of inordinate delays in processing of cases in integrated finance. Important case-files are stated to be carelessly tossed back by the finance wing, often with petty or irrelevant objections. Finance staff are considered to be conservative, rule-minded and discouraging of reform or innovation. On the other hand, finance staff would tend to view such negative perceptions about them as the inherent inadequacy of the present system where they suffer from pulls and pressures of dual responsibility. They would tend to assign such attributions to the cases not being justified enough, and the objections from finance as something arising naturally out of their work. They would not fail to point out that the final decision making authority rests with the administrative secretary, and he/ she has the prerogative of taking a decision by overruling the IFA. In most ministries/ departments there would appear to be a schism, as regards the perception of the utility of the integrated finance function is concerned.

1.10 Though the IFA has been given various responsibilities spanning the areas of expenditure control, budgeting and accounting, in the limited time available for dissertation work, it was not possible to cover each one of them. The objectives of the study were limited to addressing the following questions:-

- a) How far has the IFA system been effective in advising the administrative ministry on matters falling within the delegated powers?
- b) How far has the IFA system in actual working been able to ensure prudent resource utilization?
- c) What has been the effect on ground of the system of dual responsibility of the IFAs to the administrative ministry and Ministry of Finance (Department of Expenditure)

Recommendations arising out of the above have also been covered as a part of the study.

METHODOLOGY FOLLOWED FOR THE DISSERTATION

1.11 To evaluate the efficacy of the IFA system, an in-depth study of the system has been carried out as a part of the dissertation work. First, the evolution of the institution of IFA was gone into, which offers the insight into its rationale and justification. The present structure of IFA in various Ministries/ departments was then studied, which gives the panoramic view of its role, responsibilities and importance. The comparative structures akin to the IFA set up in India in two advanced countries, US and UK, were also studied to appreciate the experiences elsewhere. Finally, to appreciate the functioning of the system on ground in its actual working, a fieldwork was undertaken. This involved interaction with a number of senior officers, both on finance and non-finance side. The issues that got flagged during the study of literature on the subject were discussed with the officials, who were approached by the means of structured questionnaires. The perspectives obtained from the above study of the literature on the subject as well as that obtained by the process of field work has been combined to reach the conclusions and recommendations that form a part of the dissertation.

Scope and Methodology for the fieldwork

1.12 To have an understanding of this practical aspect of working of the IFA system, an intensive field-work was taken up as a part of the dissertation work. The objective was to have a first-hand assessment of how the working of IFAs is perceived on ground as far as sanction of expenditure proposals is concerned. With the limitation of time, only the area of expenditure sanction was taken up for detailed study. IFA's contribution to other areas as budget making or accounting was not intended to be a part of the exercise.

1.13 Interviews were held with the senior officials in the finance side as well as administrative side dealing with expenditure proposals interacting with the Finance division. The data generated from the fieldwork was analyzed using MS ACCESS/ MS EXCEL.

1.14 The dissertation relies both on primary and secondary data. Primary data was generated after the fieldwork carried out as a part of the dissertation. Secondary data comprises the literature that is available on the IFA system. The literature that has been accessed and reviewed during the course of the dissertation mainly comprises of reports/ orders of the Government, Committees/ Expert bodies, Commissions such as the Administrative Reforms Commissions and Expenditure Reforms Commission and research paper of the World bank.

1.15 **Limitations of the Research:** Being an empirical research based primarily on opinions expressed by the officers approached, the research suffers from the limitation that it is based more on subjective judgment than on quantifiable and measurable objective data. Further, the officials to be approached were limited to those serving in the city of Delhi only. It confined the scope of the research to the expenditure sanction role of the IFAs. It did not go into equally important areas of

accounting and budget-making or the emerging areas of revenue generation through non-tax revenues, Public Private Partnerships etc.- all of which can in themselves be areas of research.

1.16 The dissertation work is divided in five chapters. The first chapter is an introduction to the subject. The second chapter traces the evolution of the unique institution of the Integrated Financial Advisor since independence. The third chapter covers the present set-up of the Integrated Finance in various Ministries and their functions. The recent thinking on the subject and the latest orders of the Government on the Charter of IFAs are also covered. The chapter also attempts a cross-country perspective by examining the similar institutions of Finance Director and Chief Financial Officer in UK and US respectively. The fourth chapter covers perspectives obtained during the fieldwork that was carried out as a part of the research. The results of the empirical study have been analyzed in the chapter. The fifth and the final chapter lists out the summary, conclusions and recommendations arising out of the research work.

¹ Government of India, Ministry of Finance Office Memorandum No. F. No. 10(29)-E. Coord/73 dated 6th October, 1975 on the Scheme of 'Integrated' Financial Adviser: Government of India

² Mathur, B.P. (1999) Budgetary Reforms and Expenditure Management in Government, National Institute of Financial Management.