

CHAPTER II

EVOLUTION OF THE INSTITUTION OF IFA SINCE INDEPENDENCE

2.1 The present institution of Integrated Financial Advisor (IFA) in the Central Government Ministries/ Departments has evolved since independence on account of pressing requirements of public administration of the times. The theme of its evolution has been set up by the need to decentralize financial powers from the Ministry of Finance (MoF) as also the need to develop the capacity within the administrative ministries to manage their financial affairs

Evolution of the System till 1958

2.2 The distinguishing feature of executive financial control in India till independence had been the fact that it was centralized in the Department of Finance. Perhaps, that suited the needs of administration in those days when the function of Government were largely limited to collection of revenues, administration of law and order and few other incidentals to the main administration. Since independence and more so with the launch of the five-year plans, the Government embarked upon a number of welfare and developmental activities designed to promote speedy socio-economic development of the country. The Government expenditure increased tremendously both in size and complexity. This resulted in immense expansion of Government machinery both in respect of personnel employed and in spread of their locations. In the changed situation many of the administrative procedures inherited from the colonial past became out of tune with the needs of development administration.

2.3 The system of excessively centralized financial control was referred to and discussed in various administrative reforms enquiry committees appointed by the Government of India after independence such as the Secretariat Reorganization Committee (August 1947) and the Economy Committee (1949)¹. The Secretariat Reorganization Committee (also called the Bajpai Committee) was concerned with problems of delay in the transaction of Government business. It recommended that day-to-day scrutiny of proposals of administrative departments should be done by finance officers (officials of the finance department) each one of whom should be placed in direct relationship with an administrative department or a group of departments. However, the recommendations of the Secretariat Committee did not result in any change in the system of financial control.² This was followed by another administrative reforms enquiry conducted by the Economy Committee (1949). The Economy Committee described the control exercised by the Ministry of Finance as 'ritualistic and ineffective' rather than 'intelligent and progressive'. It advocated a role for the Ministry of Finance in which its assistance could be constructive rather than obstructive. The committee found that there was not much complaint from the ministries, which had financial advisors from the very beginning such as defence. It recommended that the Joint and Deputy Secretaries in expenditure divisions should be geographically so located as to sit near one of the ministries to which they are accredited and the ministries should be encouraged to consult them at as early stage as possible³

2.4 These two enquiry committees were followed by the report of N. Gopalaswami Ayyangar, then a Cabinet Minister. Shri Ayyangar, in his report complained that Ministry of Finance was unwieldy and had centralized too many functions. It concerned itself not merely with the general financial policy of the Government but also with every detail in the administrative execution of proposals. This entailed considerable

delay in obtaining financial sanctions. The Ministry of Finance devoted itself to examine the technical aspects of schemes even though it was not adequately staffed for the purpose. Ayyangar considered the then prevailing system as slow, elaborate and expensive, which required to be improved in order to increase the responsibilities of individual ministries and remove the sense of frustration prevailing among them. He wanted to promote economy consciousness and sense of financial responsibility throughout the administrative departments, which are really effective safeguards against extravagance. He therefore desired that a review of the extent to which effective delegations of power of expenditure sanction could be effected to different departmental authorities should be undertaken.⁴ He advocated a permanent financial advisory organization for the administrative ministries on the pattern as existed in Ministry of Defence. To overcome the problem of shortage of trained finance personnel at the senior level, he suggested as an alternative, that the Ministry of Finance should be re-organized into two departments. One of these departments could be assigned the task of dealing with proposals of civil expenditure and the other could concern itself with the control of defence expenditure. He also recommended that Department of Civil Finance should be so organized as to enable improved functioning of its divisions associated with different administrative ministries.⁵

2.5 It can thus be seen that after independence, increasingly it was felt that too much dependence on Ministry of Finance for various matters and consultations with it involved inordinate delays resulting in slackening of the tempo of work, administrative inefficiency and uneconomical financial management. The Estimates Committee of the first Lok Sabha, which examined the matter in their second report, thought that the control of Ministry of Finance was more rigid on minor items of expenditure and lax on major items. The committee considered the system of financial control as unsound and felt that the question of

financial control on major and minor items required re-examination. Broadly, the committee advocated the principle that the itemized control should be delegated to the Heads of Ministries and the Ministry of Finance should be left free to devote more attention and thought to major proposals involving bulk expenditure.⁶

2.6 Over-centralization as a stifling factor in Indian public administration had also engaged the attention of Paul Appleby, who was invited by the Government of India to carry out a survey of public administration in India. He submitted his report in 1953. His comments on the faulty administrative process were aptly summed up in the following remarks:-

“A general fault of Indian administrative process exists in the practice of seeking agreement on everything by everybody before anything is done. Worse, the practice requires that the agreements cover not only general objectives, general allocation of funds, general personnel arrangements, and the fixing of general lines of responsibility, but also cover specific applications of these general determinations in a continuing and heavy flow.....A more valid criticism, subject to fewer exceptions, would be the statement that before and after the fact that too much attention is focused on detail and that, consequently, general determinants have too little of their desired effect, which is to clear decks for action. General determinations are not taken seriously enough. The budget provides an excellent example; it is not determined in fact when enacted, but it is actually being made day after day throughout the year. Detailed control after fact of general determination has the effect of delaying, frustrating and even nullifying decisions made at the highest levels”.⁷

Appleby found the system of financial control to be too petty and specific tending to undermine responsibility and the requisite discretion and to act as a drag on action. According to Appleby, financial control

would be more effective and appropriate if, within relatively wide limits, the deployment of available funds was left to the discretion of the administrative authorities.

2.7 The first five-year plan considered, among other factors, the system of financial control as having a bearing on the efficiency of administration. AD Gorawala, who was requested by the Planning Commission to give his recommendation for reforms in public administration of the country, drew the attention to the complaint against what is termed the woodedness and lack of discrimination of the Finance Ministry at the center. The Finance Ministry, it is said, centralized in itself the power of sanction and even for small amounts of sanction, the administrative departments have to go to the finance ministry. Gorawala thought that it would be helpful if certain financial powers were delegated to administrative ministries and heads of departments for contingent expenditure within the budget provision.⁸

2.8 As a result of persistently pressing demand for reforms made by various committees and expert bodies, greater financial powers were delegated to the administrative ministries by the MoF in 1953 in respect of creation of posts and contingent expenditure. The powers were further enhanced in 1954 and 1955. The suggestions made by various experts and by financial committees of Parliament set the thinking of Government and outside in favour of large delegations in favour of administrative ministries. Also, seized of the questions of reforms in the system of financial control, the Government adopted the line of thinking that budgetary and financial competence should be developed in administrative ministries so that their proposals involving expenditure and requiring financial advice could be properly vetted to enable financial concurrence to be accorded as expeditiously as possible. Accordingly, a scheme was introduced in 1956 on an experimental basis in the Ministry

of Irrigation and Power under which an Internal Financial Advisor of the rank of Deputy Secretary to Government of India was posted with functions to scrutinize all financial proposals relating to the multipurpose projects etc. and to assist the Secretary of the Ministry in all financial matters.⁹

2.9 Here it must be added that the concept of earmarking financial advisors to individual ministries was not new. At the outbreak of the Second World War, there were a few Government organizations, such as defence, Posts & Telegraph and Railways, which had a senior functionary attached to them for purposes of rendering financial advice. However, the general pattern of centralized financial control directly through the department of finance operated in most of the Government departments. The only exception made out for some time was in the case of Department of Industries and supply for the period of the war. Given the volume of workload, a separate division of Department of Finance was established with the functions to work in intimate contact with these departments. They were to associate themselves with the expenditure proposals right from embryonic stages so as to be able to expeditiously dispose off the cases. This was however abandoned towards the end of the war.¹⁰ Subsequently, Richard Tottenham, who submitted a series of reports during 1945-46 on the re-organization of Central Government recommended that every spending department should have a trained finance officer of his own as Financial Advisor. He wanted such an officer to act more as an officer of the administrative department than as watchdog representative of the department of Finance. However, nothing was done on the recommendation of Tottenham on financial re-organization as the Government's attention was engaged in more pressing issues of the time.¹¹

2.10 In early 1957, the Government introduced the 'Attached Financial Advisor' scheme. Under the scheme, an officer of the rank of Undersecretary or Deputy Secretary, depending on the nature of work to be handled, was appointed as Attached Financial Advisor (AFA) to each ministry or department. The AFA was to be available to the administrative ministry in its day-to-day work of financial nature and also for consultations from the earliest stages of the formulation of a scheme or a project. The Ministry of Finance hoped that the new arrangement would train a large number of personnel who could be utilized for building up an internal financial organization within each administrative ministry. The scheme was conceived by the then Finance Minister TT Krishnamachari. The attached financial advisors were to be readily available to the administrative ministry for financial advice on proposals emanating from that ministry. However, wherever necessary, the AFA could seek orders from the Joint Secretary (Financial Advisor), who was in overall charge of financial advice. The AFA though borne on the strength of Ministry of Finance, was directed to work as if he was an officer of the administrative ministry. He was to render all assistance to the Secretary of the administrative ministry in the preparation of budget estimates.¹²

2.11 The Attached Financial Advisor scheme, however failed to solve the problem of providing suitable machinery to the administrative ministries for expert financial advice in transaction of their business. The scheme did not continue for long. The experience gathered from the operations of the system, however, suggested the necessity of entrusting financial responsibilities in day-to-day matters to the administrative ministries and providing them with assistance of proper personnel equipped with adequate financial competence.

2.12 A real breakthrough came in the scheme of delegation introduced by the Government from August 1958, which vested the administrative ministries with considerably large powers not enjoyed by them before. These were based on a large measure on the suggestions of AK Chanda, then Comptroller and Auditor General and the recommendations of the Public Accounts Committee. The main features of the scheme were as:-

- Powers to create temporary posts upto a period of two years were enhanced to include posts upto a pay scale of Rs 2250 per month.
- Subject to certain conditions, administrative ministries were authorized to issue expenditure sanctions on any scheme the total expenditure of which did not exceed Rs 50 lakhs
- Administrative ministries were delegated full powers without any monetary ceilings in respect of grants-in-aid and loans where schemes and patterns of grants and loans were already approved by the Ministry of Finance
- The administrative ministries were delegated full powers in regard to miscellaneous expenditure and expenditure on contingencies and stores
- The administrative ministries were to consult the Ministry of Finance in respect of contracts and purchases only when their value exceeded Rs 35 lakhs. In case of any negotiated or single tender contract the limit was Rs 10 lakhs. The finance ministry was also to be consulted in case of any indent for stores of a proprietary nature the value of which exceeded Rs 5 lakhs.
- The administrative ministries were delegated powers to appropriate funds in all matters barring a few laid down exceptions as, re-appropriation to augment the provision under the primary units relating to 'Pay of officers' and 'Pay of

establishment' either for a scheme or for other types of expenditure; re-appropriation from the provision made for a scheme to meet expenditure for any other purpose; re-appropriation between the primary units under which provision was made for a scheme which involved the augmenting of provision under any one such unit by more than 5 percent or by more than Rs 1 lakh whichever was less.¹³

The aim of the delegation was to decentralize financial powers. The scheme intended that the administrative ministries should in turn delegate to the maximum extent administrative and financial powers to the heads of departments and also to other authorities with due regard to their respective levels of responsibilities. Under the new scheme, the administrative ministries were given finance officers of appropriate status, designated as Financial Adviser, Deputy Financial Adviser and Assistant Financial Adviser to function as their internal financial advisors. The financial advisors functioned as a part of administrative ministry to which they were attached and were paid from the budget grant of that ministry. They were required to help and advise the administrative ministry in its budgetary, financial and related work and to assist it in a proper exercise of control over expenditure against appropriations. The internal financial advisor was kept subordinate to the Secretary of the administrative ministry. But it was provided that the cases where the advice of internal financial advisor was not accepted should be brought to the notice of the Ministry of Finance and the Comptroller and Auditor General of India. It was made mandatory on the administrative ministries to consult the Internal Financial Advisor in their exercise of their newly delegated powers.¹⁴

Evolution of the Financial Advice System from 1958-68

2.13 However, before the scheme of 1958 had been worked over a sufficient length of time, proposals came to be mooted for merging the functions of the internal and the external financial advisors in the same official. The shortage of trained finance personnel was to large extent responsible for prompting such a move. Also the absence of a clear distinction between the responsibilities of internal and external financial advisors led to such a move for merger finding acceptance amongst the administrative ministries. It was considered that financial scrutiny at two stages, first by internal financial adviser and then in the Ministry of finance involved avoidable delay. In less than a year after the introduction of the scheme, the system of internal financial advisor was retained only in a few administrative ministries, namely, Home affairs, labour and employment, Transport, irrigation and power, and iron and steel. In the case of most of the administrative ministries a combined financial set-up was introduced under which the officers of finance ministry functioned, in addition, as financial advisors to these ministries. Such ministries therefore did not have to position internal financial advisors. The Ministry of Finance also decided, in 1959, to bring over the officers and staff of the finance branches of these ministries to the Department of expenditure to give full effect to the scheme of combined financial advice. Such a measure was calculated to enable an economical utilization of the personnel available for financial advice work. Exception was however made in the case of Ministries of Irrigation and power, Home affairs and labour and employment in whose case both the internal and external financial advisors continued to function.

2.14 Further, the delegation of 1958 had less than desired effect in speeding up decision-making as also improving its efficiency. It did not have a chance to work as the administrative ministries did not find it possible as a rule to furnish adequate details of their schemes before the framing of the budget. The problem of improving administrative efficiency

and standards continued to engage the attention of the Government and protracted discussions were held particularly in the context of third five-year plan for speedy implementation of the plan projects. The thinking of the Government was aptly reflected in the following statement laid on the table of both houses of Parliament in August 1961:-

“The present system of financial control should be reorganized. Itemised examination of financial proposals should be confined only to vital matters. Financial responsibility should be devolved in liberal measure on the administrative ministries and by them in turn on the implementing authorities. The control of Ministry of Finance should be exercised through pre-budget scrutiny and by adequate reporting, random checks and work studies in such fields as may be considered necessary”¹⁵

2.15 A scheme was finalized for introduction in the Ministries of Commerce and Industry, Information and Broadcasting, Community development and co-operation and the department of food. The important features of the scheme included 1) formulation of programme for intensive pre-budget scrutiny between the administrative ministry and ministry of finance necessitating the preparation of budget estimates earlier than usual in cases in which actuals of last year were not an important consideration 2) further liberalization of financial powers to the ministries in order to avoid references to finance ministry in the post-budget period except on vital matters and 3) the exercise of control of important financial aspects by the Finance ministry through an adequate reporting system and test checks. The scheme was introduced from June 1, 1962. Important features of the scheme were:-

- Proper scrutiny of the schemes etc. submitted by the administrative ministries for incorporation in the budget should be carried out by the Ministry of Finance before including such

proposals in the budget. The budget proposal were to be prepared by the ministries in greater detail and with as much precision as possible and referred to Finance ministry a few months earlier than usual

- The administrative ministries were exhorted to organize their finance, budget and accounts work in a way to facilitate implementation of the new scheme
- The scheme of delegation of financial powers provided that any amount, without specified limits, may be sanctioned by administrative ministries if the projects for which such amounts are sanctioned have been scrutinized and accepted by the Ministry of Finance
- The administrative ministries were delegated powers to sanction expenditure on all items irrespective of the fact whether these are new items or otherwise so long as such new items do not result in any variation in expenditure and if they have been provided for in the budget after scrutiny by the Ministry of Finance.
- The administrative ministries were delegated powers for re-appropriation between the primary units in which provision was made for group of allied schemes specified with the previous consent of Ministry of Finance.
- The administrative ministries were authorized to create posts carrying pay up to and inclusive of Rs 2250 p.m. in the revised scale of pay.
- Powers were delegated to administrative ministries to sanction excess expenditure over the original estimates of sanctioned schemes up to a limit of 10 per cent or Rs 1 crore whichever is less without reference to Ministry of finance.
- The heads of departments and other officers in the Ministries were to be delegated well-defined powers in respect of indents,

purchases and contracts, within the limits prescribed for ministries. Full powers were given to administrative ministries to re-delegate the powers upto the limit vested to them.

- It was made an integral part of scheme of 1962 that each ministry should set up, internally a competent study unit which would assist the ministry in laying down norms of particular types of work and would also examine such proposals for staff re-organization or creation of posts under it.¹⁶

The new scheme envisaged the financial advisor to be an integral part of the administrative ministry. He was to be responsible for overseeing the preparation of budget estimates and for ensuring that in the process of incurring expenditure the administrative ministry observed the financial principles and procedures. He was also to watch the progress of expenditure to guard against any excess over the budget allotment. In addition he was to tone up financial administration of the administrative ministry by instituting the necessary system of reporting and test checks. He was considered to be an important link between the administrative ministry and Ministry of finance to establish and maintain the necessary liaison with the latter. The scheme of 1962 provided that the Secretary of the administrative ministry would be the final authority to decide each issue after obtaining the advice of the financial advisor. The requirement of conveying the cases of disagreement to Ministry of Finance and the CAG was dispensed with.

Evolution of the IFA System from 1968-75

2.16 The delegation scheme of June 1962 was reviewed in 1967 by the administrative ministries at the request of the Finance Secretary and in light of this review a modified scheme was evolved by the Ministry of Finance delegating larger financial powers to the administrative

ministries. The new scheme was introduced from October 1968. It was also based on the arrangement that the Ministry of Finance will exercise its control mainly by a proper scrutiny of the schemes, proposals etc. before inclusion in the budget and through an adequate system of reporting and test checks. The salient features of the scheme were:-

- Time schedule for formulation of budget proposals was re-emphasized for strict adherence in order to allow sufficient time for proper scrutiny by the finance ministry of expenditure proposals submitted by the administrative ministries and for any subsequent discussions that may become necessary on the basis of such scrutiny
- Administrative ministries were given full powers of re-appropriation within a grant provided there was no diversion of funds intended for plan schemes to non-plan activities and there is no augmentation of the total provision made for administrative expenses
- The scheme lay stress on the requirement that competent financial advice should be available internally within the administrative ministries. It disfavoured the system of finance ministry officials being available for consultation to the administrative ministries in their delegated fields. It prescribed a time limit for stopping such a practice and exhorted ministries that do not have their internal financial advisors to set up their internal finance cells.
- Ministries were required to strengthen their Internal work study units for the efficient discharge of their functions.
- For creation of permanent posts which were intended to be continued on long term basis , it was to be ensured that long term savings in the establishment budget were available for the purpose

- Internal Work study units , which were to be integral part of the scheme were to be consulted in all cases where additional posts were to be created under the delegated powers due to increase in work or re-organization staff.
- The Ministries were delegated full financial powers to sanction grants and loans subject to the rules and principles being prescribed in consultation with the Finance ministry
- Ministries were required to furnish to the finance ministry copies of sanctions under certain categories as Contingent and Miscellaneous expenditure above certain limits, Excess expenditure over the estimates of scheme accepted by Finance ministry, re-appropriation of funds in exercise of delegated powers and introduction of a new item in a scheme
- Ministries having attached and subordinate offices were in each case to review, in consultation with their internal financial advisor, the adequacy of the financial powers with the heads of departments/ offices under them and redelegate their own powers to the extent necessary
- The scheme sought to improve the arrangements of reporting by the administrative ministries to the Ministry of Finance in respect of staff strength. Instead of half-yearly statements being submitted by the administrative ministries to the Ministry of Finance, it made it incumbent to furnish quarterly staff statement to the associated financial advisors.¹⁷

It has been further provided under the scheme that the internal financial advisor should be consulted in all cases before the exercise of delegated powers. It is, however, open to the administrative secretary to overrule the advice tendered by the internal financial advisor in writing. It is made clear that full responsibility for the decisions taken in exercise of delegated powers rests on the administrative ministry irrespective of

whether a decision is in accordance with the advice given by the internal financial advisor or not. Under the scheme, the ministries have been given complete freedom to appoint internal financial advisors of their choice. It has also been provided under the scheme that where, in the opinion of the Ministries, an internal financial advisor cannot be provided with full-time work of the type delineated in the scheme, he may be assigned additional duties within the Ministry. In the alternative, the scheme provides that one or more ministries could be suitably grouped to be served by a common internal financial advisor. An exhaustive list of functions to be performed by the financial advisors was laid down. Subsequent charter of the IFAs has largely been based on the functions evolved during the delegation on 1968.

2.17 The question of role and functions of financial advisor was deliberated by the first Administrative Reforms Commission. To assist the commission, the subject had been thoroughly examined by some of the expert bodies constituted by the commission namely, study team on financial administration, study team on machinery of the Government of India and its procedure of work and working group on financial rules. The commission in its report on 'Finance, accounts and Audit' submitted to the Government in January 1968 made the following recommendations:-

- a) It should be obligatory for each ministry to have a whole-time Internal Financial advisor of adequate seniority and rank. The officer should be placed in charge of the finance and budget cell of the Ministry and should be responsible for the financial management and control within the ministry's field of responsibility. He should not be entrusted with any other work like personnel work of office management etc. It would be open to the Government to entrust one officer with the work relating to more than one ministry/ department

- b) The procedure for consultation with the financial advisor and the type of cases he would be consulted should not be left to the discretion of individual ministry. A set of model rules should be framed for the guidance of administrative ministries in the matter.
- c) The finance and accounts branches of the administration should be suitably strengthened wherever necessary and staffed with qualified and well-trained personnel.
- d) The finance ministry should help the administrative ministries to organize well-equipped internal finance branches. For this purpose, it will be necessary to i) ensure proper training of the junior officers, and ii) provide for officers in the middle levels opportunities to achieve varied experience and knowledge of public administration
- e) The Financial advisor should bring to his assignment a background of field experience and at an appropriate stage he should be given such orientation so as to equip him for the role and functions of financial adviser. The officers without a similar background should be provided this experience as early as possible in their careers as financial advisor; and
- f) There should be a provision for periodical interchange between the officers of the finance branches and other branches of administration¹⁸

2.18 With a view to develop the financial competence of the administrative ministries by developing proper internal attitudes and skills in the context of fifth five year plan, the scheme of integrated financial advice was introduced on an experimental basis in May, 1974 in the Ministry of Shipping and transport, combining the functions of the associate finance and internal finance on the pattern of financial control prevailing in the P&T department. It was felt that the financial advisor should be associated with the administrative ministry in a larger

measure than at present to enable him to play a more effective and constructive role in its developmental activities and should bring his financial expertise to bear in assisting the secretary of the administrative ministry and other senior officers of the planning, programming, budgeting and monitoring and evaluation functions of the Ministry. It was therefore decided by the Government to adopt the scheme of Integrated Financial adviser, as was adopted in the shipping and transport ministry, for all ministries during 1975-76¹⁹

2.19 The present system of IFA has evolved from the system set up in 1975-76. Over the last 35 years, the charter of duties of the IFA has got enlarged and achieved its unique form. The structure, role and responsibilities of the IFA in different Ministries is covered in the next chapter.

¹ Thavaraj, M.J.K. (1978) *Financial Management in Government*, Sultan Chand & Sons p. 534

² Ibid p. 586-587

³ Ibid p. 587

⁴ Ibid p. 534

⁵ Ibid p. 589

⁶ Ibid p. 535

⁷ Appleby, P.H. (1956) *Re-examination of India's Administrative System, Organization & Methods Division, Cabinet Secretariat, Government of India.* p. 20

⁸ Thavaraj, M.J.K. (1978) *op. cit.* p. 537

⁹ Ibid p. 591

¹⁰ Ibid p. 585

¹¹ Ibid p. 586

¹² Ibid p. 594

¹³ Ibid p. 552

¹⁴ Ibid p. 595

¹⁵ Ibid p. 555

¹⁶ Ibid p. 556-559

¹⁷ Ibid p. 560-563

¹⁸ Government of India, *Administrative Reforms Commission (1967) Report on Delegation of Financial and Administrative Powers, Recommendation no. 7*

¹⁹ Government of India (1975) *Scheme of 'Integrated' Financial Adviser. Office Memorandum No. F. No. 10(29)-E. Coord/73 dated 6th October, 1975.* New Delhi: Government of India