

## **CHAPTER IV**

### **AN EMPIRICAL STUDY ON THE IFA's ROLE IN SANCTIONING EXPENDITURE PROPOSALS**

4.1 To have an understanding of the contribution of IFA in sanction of expenditure proposals, an intensive fieldwork 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. Interviews were held with the senior officials in the finance side as well as on administrative side dealing with expenditure proposals and interacting with the Finance division.

4.2 For the officials on the administrative side dealing with expenditure proposals and interacting with the IFD, a structured questionnaire was developed. The objective was to interview as many officers as possible. The questionnaire was kept short, limited to eight questions only, and the officers were requested to tick a response nearest to their view. Using this questionnaire, a total of 40 senior and middle level officers from different ministries in the Central Government were interviewed. Of the officers so interviewed, 12 had experience of Ministry of Defence, 10 of the Railways and 18 were from Ministries other than Defence and Railways. To ensure that the views expressed by these officers reflect views formed after sufficiently long work-experience, the administration of the questionnaire was limited to officers who had more than 10 years of service. Further, to have a diversified cross-section of officers, the officers were approached in a range of ministries as power, agriculture, finance, home, health, commerce, fertilizers, environment and forests etc. besides defence and railways. The questionnaire focused on the contribution of the IFAs in sanctioning expenditure proposals. A

copy of complete questionnaire is placed at Annexure I at the end of the Chapter. A summary of the responses received is at Annexure II.

4.3 To understand the perspective from the Finance side, a slightly different approach was taken. Here very senior level officers (five of them at the FA level) were interviewed in-depth by means of a semi-structured questionnaire. Given the seniority of the officers, the officers were not expected to fill in their responses. They were requested to give their well-considered answers in a face-to-face interview, which were carefully noted down. While a list of pre-set questions were given to these senior officers, the interview also aimed at eliciting their views on related issues and other inputs they had to offer based on their long experience. Of the seven senior IFA officials interviewed, five were engaged as the Financial officer-in-charge of their respective ministries. Besides the above, the Additional Financial Advisor in the Ministry of Defence dealing with the financial advice set-up in the subordinate organizations of MoD (Service Headquarters of the Army, Navy and Air Force and lower organizations as also the other organizations under MoD as Border Roads, DRDO etc) was interviewed. The interview also covered a senior official of the financial advice set-up in the Railways. Overall, the selected group of officials came from the IAS, CSS and the Organized Accounts services. The set of questions posed to these senior Financial Advisors is placed at Annexure III at the end of the Chapter. The list of officers interacted with is placed at Annexure IV.

4.4 The responses received were analyzed and collated to arrive at the pressing issues facing the IFA set-up. The results of the above empirical study are summarized in the following paragraphs.

## **Integrated Finance - Lacking in professional expertise**

4.5 Of the various questions posed before the officers approached during the interviews, there were a few on which there was near consensus in the responses received. One of the issues that got flagged prominently was the lack of professionalism in the Integrated Finance set-up. Of the officials interviewed from non-finance side, a high 80% felt that finance staff at all levels are not adequately trained/equipped to carry out the financial examination task assigned to them. The result was no different even with the case of Railways, where finance function is manned by an organized accounts service. During the interviews with the Financial Advisors, almost all agreed on the need to develop better professional skills in the staff in the IFDs. It emerged that the present manning policy in the IFD (in Ministries other than Railways) is to treat it as another generalist function and while posting people their professional experience or past training in finance related work is not seen. The result is, as one senior FA pointed out, a person may end up in budget division without knowing what is meant by 're-appropriation'. Another senior FA brought out the pitfalls of having staff with inadequate expertise. Such staff tend to be shaky and tend to take extreme views. They either say yes to everything without proper application of mind or take extreme negative view in every case they examine. Either of the two is undesirable in the helping and supportive role IFD is expected to play. There is undoubtedly a need to have the IFD staff properly trained not only in financial matters but also in the functioning of the Ministry. There is also a need to ensure some continuity for them while working in any Ministry.

## **Integrated Finance- Adding to delay in decision-making**

4.6 The respondents from non-finance side were asked about their experience with the references received back from Integrated Finance seeking additional information before they gave their final view on any subject. An overwhelmingly high 80% felt that the references received from the IFD were far too many and could be cut down. Only 20% felt that the references received back from integrated finance are required given the issues involved. Here again the response was no different in the case of Railways, where also a high 80% felt that the case get tossed between the Integrated Finance and the executive authorities far too many times. While this may be another pointer to the lack of professionalism in the IFA set-up, it also points to the fact that some more streamlining may be called for in the Integrated Finance working for examination of expenditure proposals. Almost all the FAs interviewed agreed that there remains a scope to make the examination of expenditure proposals less prone to delays and more result oriented. However, some of the FAs also pointed out that some minimum processing time is required and often the expectations from the administrative side for speedy disposal of cases were unrealistic.

4.7 A question posed to officials from non-finance side was their view on the time taken by the Integrated Finance in examining the expenditure proposals referred to them. In response, 43 % of the respondents (Railways: 20 %, Defence: 42%) felt that it led to avoidable delays, while another 50 % (Railways: 70 %, Defence:50%) felt that it was required given the issues involved and only 6 % (Railways: 10 %, Defence:8%) felt that it did not lead to delay at all. The satisfaction with the time taken was distinctly higher in case of Railways. The position in Ministry of Defence was similar to as obtained in other Ministries, which could be on account of the fact that staffing pattern in Defence is similar

to other Ministries, where people in IFDs are drawn from CSS/ Central Deputation and make have no prior domain knowledge of the Ministry. It would appear that even after providing necessary allowance for the time for financial scrutiny by the IFDs, more people perceive the disposal of cases by them to be delay prone. Fewer respondents attributed the examination by Integrated Finance as not contributing to any delay at all. One possible improvement that can readily be suggested based on the said responses is that IFD may be mandated to raise all their queries, as far as possible, in one go. It may also be worthwhile if IFDs commit to a self-imposed deadline for disposal of cases referred to them.

### **Need for proper training of IFD Staff**

4.8 The responses received from the officials both from the finance side as well as non-finance side clearly establish the need to develop proper training modules for the officers and staff in the IFD. The officials from the non-finance side were asked to comment on the relevance of the queries raised by Integrated Finance before giving their final view on the proposals referred to them. While 58% respondents felt that the queries raised by finance were more relevant than irrelevant, around 42% also felt that the queries raised by finance were more irrelevant than relevant. The respondents in case of Railways and Defence finding the queries more relevant than irrelevant were 70% and 67% respectively, which was higher than other Ministries. This may be a pointer to the fact that the queries raised by the finance during examination of proposals often tend to lose focus. Building up proper domain knowledge in the finance staff can certainly go a long way in making the financial examination more focused and relevant. Almost all the FAs interviewed agreed that the IFDs need to build skills that must go beyond mere examination of procedural/ proprietary aspects. The involvement of FAs in enabling the Ministries to achieve end-results by

proper advice was emphasized as a key area by all FAs. A number of areas were flagged by the senior officers, which could form part of skill building of the Financial Advisors, as:-

- Use of Discounted Cash Flow techniques in appraisal of proposals.
- Negotiation techniques
- International markets/ Forex management
- Contract management
- Life Cycle costing of major equipment
- Disinvestment of Public Sector Undertakings

One of the eminent FAs felt that today there is lack of clarity on the training content that should be there for staff before posting to Integrated Finance. He felt that the training content for financial work should be decided. Even for the financial rules laid down by the Government of India, there are often no clear and updated orders on many subjects. Also lacking is the mechanism to disseminate them whether by the MoF or by the administrative ministries. As a result, there are often plethora of rules and regulations on any subject, as also agencies issuing these orders. All of this added to confusion and made the task of IFD more difficult. Preparation of clear and updated orders on various subjects could also be necessary component of the development of training module for Financial Advisors and IFD staff.

#### **Does examination of expenditure proposals by Integrated Finance add value?**

4.9 The respondents from the non-finance side were asked to express their opinion on the contribution of the Integrated Finance to the quality of final decisions as regards sanction of expenditure proposals. While 20% (Railways: 30%, Defence: 25%) of the respondents felt that it adds a lot of value, 45% (Railways: 50%, Defence: 42%) felt that it adds

some value, 28% (Railways: 10%, Defence: 25%) felt that the value addition is insignificant and 7% (Railways: 10%, Defence: 8%) felt that it does not add any value to the final decision. It was thus seen that the respondents generally refrained from taking an extreme view of endorsing a lot of value by finance or negating any value addition by finance. The value addition by finance was generally seen to be falling within the two extremes, with a fairly large number terming it as insignificant. The value addition was perceived to be higher in Railways compared to other Ministries. Even Defence fared better than other Ministries. The perception that value addition during financial scrutiny is not to the optimum is not surprising given the fact that generally speaking the financial scrutiny has been more concerned with procedural aspects and focused on observance of rules. Ministries as Railways and Defence that have developed domain knowledge in finance function were found to be doing better than others. All the FAs interviewed were unanimous on the need for IFDs to mature to more professional financial examination. However, the less than charitable view about the value addition by finance did not find an echo in the views expressed by the FAs. One of the FAs felt that the contribution of FAs was often ignored and the credit for suggestions/ advice given by FAs was taken by administrative authorities. For many of the cases resolved by the FAs, there was often no acknowledgement by the administrative authorities. The responsibility of FA to provide control and implement directions of the MoF is often missed out as a contribution/ value addition

4.10 A question that was posed to respondents from non-finance side was whether there would be a better examination of proposals in the executive wing if there were to be no Integrated Finance as they would know that they would be solely responsible for the final decision taken. No conclusive answer could emerge to the query. A total of 43% of the respondents replied in the affirmative (Railways: 30%, Defence: 50%)

while a total of 48% of the respondents replied in negative (Railways: 50%, Defence: 42%). The rest could not firm up a view. The response being mixed, no conclusions are drawn from the above response.

4.11 The responses from officers both from finance and non-finance side do stress on the need to further improve upon the contribution of integrated finance to the expenditure proposals. Proper training and more increased professionalism of the finance set up will definitely go a long way in achieving the same.

### **Should FAs be subject to dual responsibility?**

4.12 The institution of Integrated Financial advisor emerged from a regime where finance function was the preserve of MoF. Over the period, capacity was built up in Ministries/ Departments to take financial decisions. First the institution of 'Internal Financial Advisor' came up, which was subsequently enlarged in scope to become 'Integrated Financial Advisor'. With that the 'Associate Financial Advisor', who formed a part of MoF was subsumed within the 'Integrated Financial Advisor' set up. A unique system of dual responsibility was evolved, under which the IFA remains accountable to both MoF and to the administrative Ministry. Though forming part of the administrative ministry, he represents MoF in that Ministry and implements its directions. His reporting system involves both the administrative ministry and the MoF. The system of dual control has been subject to some debate. Though the revised charter of IFAs brought out by the MoF has not done away with the system of dual responsibility, views continue to be expressed in favour of having the IFAs as a part and parcel of administrative ministry only.



4.13 On the question whether the institution of Integrated Finance is a hindrance to implementing innovative practices in the Government as in such cases all requisite details cannot be firmed up to start with, the response of officials approached from non-finance side was mixed with a majority not viewing IFA as a hindrance. A total of 67 % of the respondents (Railways: 70%, Defence: 67%) felt that the IFA set-up is not a hindrance in implementing innovative practices in Government, the rest giving the view that it is a hindrance. The majority would thus not see the IFA as an obstacle to innovation and reform in Governance.

4.14 Another question posed to officials from the non-finance side was whether the Integrated Finance have been held equally responsible for decisions gone wrong in cases where the decisions were taken with their concurrence. A clear majority of the respondents, 70 % of the total (Railways: 60%, Defence: 75%) felt that IFA set-up has not been held equally accountable for decisions gone wrong.

4.15 The above responses taken together may well suggest that there is a merit in the idea that finance function be fully merged with the administrative ministries to replace the present system of dual accountability which involves MoF also.

4.16 However, the senior level FAs approached for the study were unanimous in their view that the present system of dual responsibility should continue. The overwhelming view was that if the accountability was only to the administrative ministry, objectivity and independence would suffer. Under the present system, the presence of MoF as far as FAs are concerned, is more as a support and back up. On ground, much of the work is handled by FAs themselves without recourse to MoF in day to day affairs. For all practical purposes, FAs have a single point

responsibility to the administrative Secretary for bulk of the work done by them. To that extent, dual responsibility is considered a non-issue as far as micro-level working of FAs is concerned. However, since MoF's responsibility for financial administration remains (and is likely to remain) at macro level, a control of MoF over the IFAs is a must. The present system enables the FAs to have a communication channel open with the MoF without compromising on their basic responsibility to the administrative Ministry.

4.17 Some of the Financial Advisors also pointed out to the problems that are often faced in examination of proposals by them. A key challenge area for the FA remains to be able to say no to a proposal and yet be acceptable to the administrative Ministry. FA in such cases has to maintain a fine balance of enjoying the confidence of the administrative Secretary while rendering advice that may go against his wishes. In many cases, being under the administrative control of Ministry, FAs render advice that may be more acceptable to the Minister, even when they themselves may not be fully convinced about the same. Almost all the FAs felt that the present system of dual responsibility serves as an important element of checks and balances in the present system. The absence of the same may lead to abuse of power and increase the incidence of financial irregularities. Doing away with the present system of dual accountability may hamper the FA's ability to take a stance in such difficult situations.

4.18 Instead of dispensing with dual responsibility, FAs would argue for better sensitization on the part of the administrative ministry, as far as their role is concerned. It was pointed out by some FAs that in most cases, the Secretaries are reluctant to overrule the FA and expect the FAs to agree to the proposal forwarded by administrative ministry. Though, they are final authority for sanction, they are reluctant to

exercise such prerogative after overruling the FA. Cases that have been turned down by the FA, instead of dying down, continue to be referred back expecting him to finally agree. In many such cases, FA tend to get unfairly blamed for pendency/ delays even when they have given their well-considered views. In course of interviews, none of the FAs could recall any case where the administrative Secretary has taken a decision after overruling the FA.

### **IFA set-up- Can it be done away with**

4.19 A final question arises as to whether the IFA system can be done away with and replaced by a better system. Though no question in this regard was posed directly as a part of the interviews, an answer to the question was very clear based on the various facets covered during the study. It is very clear that the IFA system is there to stay and the future lies only in strengthening it and not jettisoning it. A study of the evolution of the system reveals that increasingly IFA has been called up to handle tasks that call for specialized knowledge. The Charter of 2006 makes the role of IFA very clear and defines it akin to that of a Chief Financial Officer in the corporate sector. The empirical study had focused only on the aspect of expenditure control role of the IFA. The responses both from finance and non-finance officials establish that there is a need to improve on the said role. The study also brings out that the scrutiny by integrated finance is generally seen as adding value and enforcing control, while at the same time not being a hindrance to introducing innovative practices. The problem areas of delay in decision-making on account of financial not withstanding, there will be few votaries for dispensing with the same. Besides the expenditure control role, the roles of IFA in accounting and budgeting are also critical specialized functions. Doing away with the role of IFA has not entered the debate in public policy till now. The empirical study shows that it is

unlikely to do so in the near future as well. With increasing emphasis on achieving end results in Government functioning and the need to achieve them with in most economical manner, the future directions of administrative reforms will necessarily have an element of structural reforms in the financial set up. The succeeding chapter will attempt to make certain recommendations on the direction of reforms that the institution of IFA can take as far as its expenditure control role is concerned.