

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 The institution of the IFA evolved on account of the felt need that every administrative ministry/ department should be suitably empowered to take decisions of financial nature. The system that India had inherited at the time of independence was characterized by over-centralization of the financial control with the Ministry of Finance (MoF). Such a system was not conducive to the developmental and other activities that the Government undertook after independence. It was not long before that the inadequacies of the centralized control started manifesting itself. Financial decisions, in the early years after independence, were characterized by inordinate delays, insensitivity to ground requirements and lack of awareness of the larger picture. The need to improve the way administration of the country was run led to two-fold set of actions. First, more powers were delegated to the administrative ministries by the MoF. Second, internal capacity was developed in the Ministries to take financial decisions. It was the latter which led to creation of the institutions of 'Internal Financial Advisor' as a part of the administrative ministry and of 'Attached Financial Advisor' as a part of Finance Ministry but earmarked to different administrative ministries- both of which were to enable speedy decision-making. However, by 1975, it was found expedient to combine the two institutions into one of an 'Integrated Financial Advisor', who became a part and parcel of the administrative Ministry. Along with the integration, a unique system of dual accountability was evolved under which the IFA though a part of administrative Ministry, was also accountable to the MoF for implementing the financial controls in the light of policies, rules and regulations prescribed by them.

5.2 The institution of IFA, which evolved almost 28 years after independence, has grown further and come up on its own in the next 35 years. Over this period, very many changes have taken place that have seen the charter of the duties of IFAs evolve further. Besides the task of budget formulation and expenditure monitoring and control, the IFA has been tasked to supervise the maintenance of accounts consequent to departmentalization of accounting functions in 1977. In the recent years, the charter has been enlarged to cover areas as outcome budget, performance budget, raising of non-tax revenue and so on. The basic framework of duties that were laid for the IFA in 1975 has, however, still remained valid. A revised charter of duties for the IFA has been formulated in 2006, which has built upon the role already being played by them. The charter enunciated in 2006 has brought in a better role clarity for the IFAs and assigned them a role that is akin to that of a Chief Financial Officer in a business organization.

5.3 The evolution of the institution of IFA in India has been similar to those in many other developed countries including US and UK. In both these countries, the centralized control of the Finance Ministry has given way to delegation of powers to executive agencies, who are aided and advised by the Chief Financial Officer (CFO) and the Finance Director (FD) respectively in financial matters. However, unlike in India, the full accountability of the CFO/FD in US/UK is to the respective administrative entity with no control of the Finance Ministry. Further, the development in these countries is towards professionalization of the finance function in Government- most of the personnel manning the finance jobs being qualified chartered accountants. At the apex level, the slots are open to people from the private sector rather than only to career civil servants.

5.4 While in most Central Ministries/ Departments of India, the integration of finance and accounts function to the executive agencies is a relatively recent development, the Indian Railways had the integrated system even before independence. The Railways also have the advantage of a dedicated Accounts and Finance Service for a long time. In case of other Ministries, the trend is more recent and the finance functions continue to be regarded as more of a generalist job. The only other exceptions are Defence, Posts and Telecommunications, who also have the benefit of specialized accounts and finance service as a cadre.

5.5 It would not be incorrect to say that as the complexity of tasks undertaken by the Government increases and as do the expectations from it to achieve the tasks in the most optimal manner, there will be increasing requirement of finance becoming a specialized function, fully committed to the goals of the organization. The recent order from the MoF while redefining the charter of IFAs has mandated it to perform tasks as preparation of outcome budget, preparation of performance budget as well as tapping non-tax sources for revenue generation. The efficacy of the IFA system in carrying out these additional tasks is certain to occupy the spotlight in coming years.

5.6 Judging the efficacy of the institution of IFA can be a Herculean task, if it is undertaken for the entire range of activities undertaken by it. This dissertation focused on only one of the more important activities, that is, the role played by the IFA in expenditure sanctions. The methodology involved interaction with senior officials serving both in the finance side as well as non-finance side. The study clearly brings out the following:-

- There is a need to bring in more professionalism in the Integrated Finance set up. The present trend of treating it as a generalist function should change
- There is a need to streamline the process of examination of expenditure proposals in the finance division, which is generally seen to be prone to delays, characterized by unnecessary references back to the administrative authorities and by irrelevant queries.
- Proper training modules need to be developed to build upon the professional expertise in the finance divisions.
- The examination by the integrated finance should become more value added rather than merely confining to examination of rules, regulations and procedures.
- If the objective of decentralization of powers from MoF was to bring about value addition in the examination of expenditure proposals and cut down delays in their disposal, then a lot more remains to be done than what has been achieved till date. Training of finance personnel and making the finance set up more professional can be the first steps to help achieve the said objectives.

However, the above should be regarded as shortcomings of the present system highlighting areas for improvement rather than as inherent weaknesses that need to trigger a rethink on the IFA system per se. It can be said that for almost 35 years after it was conceived, the IFA system has come a long way in ensuring prudent resource utilization and in advising the administrative ministry in proper discharge of financial powers.

5.7 The following are suggested as regards to improvements in the IFA system based on the present research:-

a) Under the present structure of financial administration, only the Ministries of Railways, Defence, Posts and Telecom have the services of dedicated Accounts & Finance service (IRAS, IDAS & IP&TFAS respectively). In the case of Railways, the finance and accounts posts in at the Ministry level as well as at the level of attached/ subordinate offices (Zones, Divisions etc) are manned by IRAS officers. Same is the case with Posts and telecom. In the case of Defence, however, the finance posts in the Ministry of Defence are filled in by deputation like other posts in the Central Secretariat. The services of IDAS officers are utilized to man the finance posts at the level of Service Headquarters or below. In all other Ministries, the finance posts are manned by staff on central deputation or from staff from the Central Secretariat Service. Generally speaking, the posts up to the level of Undersecretary are filled by officers from the Central Secretariat Service (CSS). Posts at Deputy Secretary/ Director level and above get filled by CSS officers as well as officers from the All India Services/ Central services on deputation. The present system has no means of ensuring that all officials posted in finance posts are trained in Accounts and Finance work. Availability of trained manpower especially in CSS is a problem. It is recommended that as a first step, the Government of India may encourage CSS officers to opt for and specialize in the field of financial administration. A pool of these officers can be developed over a period of time by imparting them the requisite training and giving them the right exposure. If considered appropriate, to act as an incentive, a rule may be framed that only CSS officers specializing in financial administration will be considered or posting in integrated finance divisions. The specialization will not be a bar for them to get posted to divisions other than finance division in case they so desire. However, officers not specializing in finance should not be

considered for posting in finance divisions. As a further incentive for officials from the CSS choosing to specialize in finance, a scheme for lateral deputation of such officers to departments manned by organized accounts services such as Railways, Defence, Posts and Telecom should be considered. This may help remove the monotony of serving only in Central Secretariat, bring about job-enrichment, provide varied exposure and act as an incentive for the CSS officers to take up finance as a specialized career.

- b) Till the time a sufficient pool of officers specializing in finance and accounts is created within the CSS, the possibility of allowing departmental accounts staff from Railways, Telecom and Defence to join IFDs in the Central Ministries/ departments should be considered. As per the present policy of Government, the officers of organized accounts services generally join the Central Ministries on deputation at the level of Deputy Secretary and above. To allow finance to develop as a specialized discipline in Central Ministries, the Government may consider the departmental accounts and finance staff to be deputed to Central Ministries at levels below Deputy Secretary also.
- c) It may be for consideration that the posts in IFDs at Deputy Secretary and above be manned by officers from organized accounts services or CSS officers specializing in the field only. Officers from other services (as IAS, IRS etc.) should be posted to IFDs only when they express willingness to do so and undergo minimum training required to man the position in the IFDs.
- d) At the level of Joint Secretary and above, a tenure in finance function, whether in the Central Government/ Ministries or in the State Government (for IAS officers) should be made mandatory. This may act as incentive for people from non-accounts services

like the IAS, CSS etc taking up Financial Administration as a specialization at an early stage in their career.

e) A critical gap exists in the field of training, which would gear up sufficient number of people to specialize in Government financial administration. Present training facilities created by departments cater to their own requirements (as in case of Defence, Railways, Civil Accounts Department etc) and not to the IFDs set up under the Central Ministries. For this purpose, the following institutions are recommended to be developed as resource centers for training in the field of finance and accounts:-

- a. Institute of Secretarial Training and Management (ISTM) may be developed as a center for running basic orientation course in the field of Government finance and accounts, which may run for a few weeks. It should cater for CSS officers desiring to take up finance as specialization and also for in-service training for people posted to IFDs. This course should be mandatory for CSS officers being posted to IFDs.
- b. National Institute of Financial Management (NIFM) may be developed as the next higher rung of training, running courses on financial management, which may be of sufficiently long duration so as to expose the participants to wide-ranging core concepts of financial management. The concepts that may be covered should have application both in the Government and Private sector. The course may cater to officers not only from Accounts services but also CSS and IAS.
- c. Indian Institute of Public Administration (IIPA) may be nominated as the premier institute for running higher end super-specialized subjects. These courses could be tailor-made courses and may even be specific to particular ministries. Some of such areas could be project appraisal,

disinvestments of PSUs, Public Private Partnership, Accrual system of accounting etc. Ministries may be encouraged to tie up with IIPA to develop courses for their finance officers.

- d. Besides the above the departmental training facilities of the Posts, Telecom, Railways and Defence should be encouraged to run courses for other IFD officials and provide a healthy interchange of ideas and experiences.
- f) There is a need to reorient the work methods and procedures as far as examination of expenditure sanction proposals in the Finance Division is concerned. Some of the suggestions meriting consideration to speed up scrutiny of expenditure proposals are as under:-
 - a. All cases marked to IFDs should be disposed in a period not exceeding 10 working days. Any delay beyond that should be clearly justified.
 - b. All the queries raised in the course of financial scrutiny should be raised only once. In case any proposal has to be referred back to the administrative wing a second time, it should be done only with the approval of Joint Secretary level officer (or the highest level officer if such a level does not exist) in the finance division. Instances of fresh queries raised while returning a case again should be rare and should be clearly justified.
 - c. Cases requiring some debate/ deliberations should as a matter of rule be finalized in collegiate meetings which the finance officers should also attend. Records should be kept of such discussions, which should serve as the sanction for final decision taken. The IFD officers should invariably be given advance notice and the necessary background papers for such collegiate meetings.

- d. All existing processes of financial scrutiny should be re-examined to see how the delay prone areas can be cut down. In routine cases where the administrative ministry feels confident of the decision based on previous such references to Integrated Finance, they may be allowed to sanction such expenditure without referring the case to Finance Division. This may have the effect of relieving the IFDs of very routine tasks of financial scrutiny where no value addition is envisaged. As in all cases, the responsibility of decision in such cases will invariably with the administrative authorities sanctioning the proposal.
- g) The afore-stated suggestions would be a sharp break from the existing practice where financial scrutiny often tends to be unending and unfocussed. To facilitate the same, some change in the manning policy of Finance Divisions may be required. Developing finance as a specialized function has been identified as a key area of action. Such a course of action is incompatible with finance divisions being manned like any other division in a Ministry/ Department. It is recommended that the finance divisions be made completely officer-oriented in all ministries/ departments. In the case of Ministries, such divisions should be structured on desk pattern, with examination starting and ending at officer level and with minimum requirement of clerical and support staff.
- h) To ensure that the finance officials are not unduly pressurized and render their advice in a free, frank and fair manner, a culture should be developed in which IFDs are allowed to furnish 'Dissent Note' specifying their specific final objection(s) to any proposal. In case the viewpoint of finance is not agreed to, the dissent notes may be overruled by the administrative authorities by the issue of a 'Speaking Order'. The speaking order should give a gist of

financial objections and the overriding considerations/ reasons for taking a decision in spite of the said objections. Though already provided under rules, this hardly happens in practice. The objective is to always make a final decision look unanimous, which may often involve unduly and unfairly pressurizing the finance to agree to a proposal. This culture needs to be replaced by one in which dissent is regarded as normal to organizational functioning. Dissent need not always be viewed adversely. It is recommended that the culture of 'Dissent Note' should not be discouraged as is the case today, which may allow FAs to give free, fair and frank advice. It should be clearly recognized that decision making is the prerogative of administrative authority/ secretary and finance function is one of enabler and facilitator.

- i) A system of accountability should be developed for the IFD officials in respect of financial advice rendered by them. That is, to say, the IFD should also own up responsibility for their advice, which does not seem to be the case today. Enforcing such accountability will also go a long way in encouraging them to give their free, frank and professional advice. The accountability on the IFD should cover not only the substantive advice rendered by them but also delays in processing the cases for which there seems to be no accountability today.
- j) The present system of dual accountability of IFAs is unique to India. It would appear that shift to a system of complete single point accountability to administrative ministries may not be fully acceptable to the IFAs. It is recommended that the matter be re-debated with the involvement of the IFAs before shifting to complete accountability of IFAs to administrative ministries only. The present system may be continued for some more time.

5.8 Presently, there are 28 IFAs at the apex level of Financial Advisors (FAs). Generally speaking, excluding Defence, Railways and Telecommunications, all ministries/departments are allocated among FAs as 'Main Charge' or 'Additional Charge'. Thus not all Ministries have a full time FA. However all Ministries do have an accounts set-up, which is manned by the officers of the Indian Civil Accounts Service (ICAS). The accounts set-up is headed by a Controller of Accounts (CA) or Chief Controller of Accounts (CCA), who are of the rank of Deputy Secretary/ Director or Joint Secretary respectively. The issue of integration of the structure of financial advice and accounts with a view to better utilization of manpower resources and economy was examined by the Expenditure Reforms Commission¹. It recommended that to optimally utilize the officers at the level of FA and CCA and also to reduce overstaffing, the government should consider straightaway the possibility of placing both the Finance and Account Divisions in a Department under one authority, even as two separate streams, one for financial advice and the other for accounts continue below that level. The merger of the two top posts of FA and CCA could be effected in all Ministries/Departments and both finance and accounts organization be placed under one authority who would be FA-cum-CCA. Below the FA, the accounts organization could be headed by Controller of Accounts at appropriate level and the Finance organization could be headed by a DS/Director(Finance). The proposed arrangement will enable government to appoint FAs independently to more Ministries and it may no longer be necessary to require some FAs to look after three or four Ministries/Departments as is now the case. This will enable better utilization of ICAS officers, who like other accounts and finance service officers are trained in financial management during probation. The job-content of the Civil Accounts department will improve manifold. However since, some of the posts may be filled in by deputation from other services (Accounts Services, IAS, CSS etc), a scheme of inter-service

deputation of ICAS officers to various accounts services should also be envisaged. This will go a long way to facilitate cross fertilization between various services and prevent stagnation in the service.

5.9. The above recommendation was also made by the Expenditure Reforms Commission but not yet accepted by Government. It was made more in the context of optimization of Government machinery. Once we recognize that finance needs to be developed as a specialized function in Central Government, the recommendation needs reconsideration on reasons other than rightsizing of bureaucracy as well.

5.10 The field of Government financial management in India is still an evolving field. The study has brought out the need to make it a more specialized discipline. It is interesting to study the evolution of the finance discipline in the private sector, where we find that with changing times finance has become a more and more specialized area of study and being asked to undertake critical areas of work in the context of business organizations.

- Prior to 1930s, the field of financial management in corporate sector was basically confined to descriptive discussions of the various financial markets and securities traded in those markets. Thus finance as field of study traditionally focused on the liabilities and stockholder's equity side of the balance sheet and on fund raising. There was little attention to asset management.
- The field underwent a number of significant changes during the Great Depression, when it became more involved with legal matters of bankruptcy, re-organization and Government regulation. Finance texts written during the 1930s and 1940s often devoted many chapters to bankruptcy-related matters, such as re-organization and liquidation.

- During the 1940s and into the 1950s, the teaching of financial management continued to be basically qualitative and descriptive. During the 1950s, however a number of significant changes took place in the field. First, financial management was expanded to include the asset side of the balance sheet, or the uses of firm's funds. In addition, the application of discounted cash flow techniques and the problem of capital expenditure analysis was refined and perfected. Also, financial researchers were making significant breakthroughs in developing techniques for measuring the cost of capital and valuing financial assets. Progress in both the capital budgeting and cost of capital areas have continued to the present day.
- During the 1960s mathematical models using statistical and optimization techniques were applied to allocation of assets such as cash, accounts receivable and inventories and fixed assets. Throughout the 1960s and 1970s the trend continued towards a more quantitative and precise concept of financial management. Another important emphasis of the last two decades has been the integration of finance topics with risk-adjusted model in an attempt to maximize the value of the firm and achieve shareholder wealth maximization.
- Over the past 50 years financial management has developed into a more rigorous discipline, and today's employers expect business and finance graduates to possess a solid working knowledge of modern finance techniques.²

5.11 The experience of the evolution of IFA system in Government would show that the trend of its evolution as a specialized discipline is no different in context of Government structures, though many more milestones are still to be covered. The present charter of IFA system as a

part of financial management in Government is more confined to the narrow walls of expenditure management. It is only logical to assume that it will evolve in due course like the corporate sector to the complete chain of generation and use of funds. Management of that change will be crucial for a country like India. Equally crucial will be the way the IFA system is geared up in India to be part not only of the reforms in Governance but also in enabling India to continue growing at a pace that has engaged the attention of the world community.

¹ Government of India (2001) *Tenth Report of Expenditure Reforms Commission: Rationalisation of the Functions, Activities and Structure of the Department of Expenditure*. New Delhi: Government of India

² Moyer, R. Charles, McGuigan, James R., Kretlow, William J. (1981) *Contemporary Financial Management* West Publishing Co. New York p 9-10