

Unshackling the Armed Forces: Need for Greater Delegation of Financial Powers

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Eight years after the financial powers delegated to the armed forces to incur revenue expenditure were last reviewed in 2006 the Ministry of Defence (MoD) is still in the process of considering further enhancement of those powers.

India does not maintain a Defence Inflation Index, unlike countries like the United Kingdom , but it does not require to be established empirically that practically everything that one buys from the revenue budget costs several times more than what it cost eight years back and, therefore, there is a need for enhancement of financial powers.

The recommendations of a committee set up in 2009 to review the delegated powers were accepted by the Defence Minister in December 2010 but soon thereafter these were held in abeyance because of the perceived fear that there was a large scale misuse of the delegated powers and that implementation of committee's recommendations would result in excessive delegation of powers.

More than three years after this astonishing development, MoD is nowhere close to establishing large scale misuse of delegated powers. A study by a senior official of the Defence Accounts Department (DAD) was commissioned by MoD, which produced a voluminous report on 'misuse' of delegated powers but none of this could stand the subsequent scrutiny based on the response from the services. In any case, it remains a mystery as to how such large scale misuse could take place considering that most of the delegated powers are exercisable with the concurrence of the officers from the same department.

As for excessive delegation of powers, the enhancement recommended by the committee in 2010 was based on the principle that at least 5 to 10 per cent of the procurement proposals must keep coming to MoD so that there is greater scrutiny of all high value proposals and, more importantly, the MoD official continue to be familiar with complexity of revenue procurement. Such an exposure is necessary for those who are involved in policy making. This recommendation did not make any material difference in so far as the proportion of cases that were being dealt with under the delegated powers in 2006. The enhancement, more or less, would have maintained that proportion after adjusting for inflation.

In any case, MoD could have scaled down the recommended enhancement if it was considered excessive but it chose not to do so and to defer the matter, which is now under consideration by another set of committees.

There are two distinct aspects of the concept of delegation of financial powers – the quantum of delegation and the terms and conditions on which the powers are delegated. In so far as the latter is concerned, it does not require to be amended every now and then, as long as the scheme of delegation is based on clearly defined guidelines for exercise of powers and a robust system of checks and balances. It is the quantum of powers that needs to be reviewed periodically. Going by

the past experience, the committees now set up would do well to consider recommending an inflation-linked formula for automatic enhancement of powers by a certain percentage, to be notified by the MoD, say every two years.

The greater challenge is to lay down clear guidelines for exercise of powers and an effective system of checks and balances. The orders issued in 2006 refer to various government orders and also stipulate that the provisions of the (outdated) Financial Regulations (FRs) would apply, wherever applicable. This is not quite user-friendly and, unfortunately, lends itself to varying interpretations. The government orders have to be self-contained, obviating the need to refer to unspecified government orders and instructions. Absolute clarity regarding the terms and conditions for exercise of powers, which includes clarity as regards the objects on which the expenditure could be incurred, is a pre-requisite for preventing transgressions in exercise of the delegated powers, which is not always by design but quite often on account of problems arising from interpretation.

Apart from the terms and conditions for exercise of powers, the system of checks and balances is based on exercise of powers with the concurrence of the integrated financial advisors (IFAs) and audit of sanctions by DAD. While the IFA system has been in place for quite some time now, the audit of sanctions is yet to commence.

The IFA system is an enigma. Officers of the Indian Defence Accounts Service are positioned as IFAs and work alongside the service officers, rendering financial advice to the latter. The system is working very well at many places but systemic problems continue. The service officers, who function as the competent financial authorities (CFAs) under the scheme of delegation of powers, have the authority to overrule the advice of the IFAs. They are also involved either as the reporting officer or as the reviewing officer in the writing of the annual confidential report of the IFAs. But this has not made much difference to the general perception of the IFA system being a hindrance and the IFAs enjoying authority without responsibility.

This is a complex problem and there are no easy solutions to it but the rigours of this system could be relaxed by increasing the powers, exercisable by the CFAs without the concurrence of the IFAs, especially in regard to powers related to small value items required for day to day running of the establishments. This is, in fact, necessary where the IFAs are not co-located with the CFAs.

According to Rules 145 and 146 of the General Financial Rules, 2005, goods up to the value of INR 15,000 on each occasion can be purchased without inviting quotations and goods costing more than that but up to INR 1,00,000 on each occasion could be purchased on the recommendations of a duly constituted Local Purchase Committee. The committees set up by the MOD would do well to consider making financial powers up to INR 15,000 exercisable without the concurrence of the IFAs but subject to observance of clearly laid down terms and conditions and observance of the prescribed procedure. The system of financial concurrence for proposals costing between INR 15,000 and INR 1,00,000 could also be made simpler.

This will go a long way in ensuring that the objective of delegation of financial powers is served better. This will also help the IFAs in concentrating on higher value proposals.

To counterbalance this liberal step, MoD needs to ensure that DAD commences audit of sanctions, whether issued without or with IFA's concurrence, immediately. The problem so far in commencing this work has been the inability to work out the modalities of how the audit will be carried out. This task cannot be left to the lower level functionaries in DAD. To begin with, peripatetic audit teams could carry out the audit, as indeed envisaged in the 2006 orders on delegation of powers, and come up with instances of systemic failures and irregularities in regard to individual transactions.

These are seemingly simple steps but these could go a long way in unshackling the services, allowing them the liberty required to discharge the responsibilities entrusted to them. On its part, the DAD needs to aim higher than to engage itself in ensuring financial discipline in small value transactions.

Views expressed are of the author and do not necessarily reflect the views of the IDSA or of the Government of India.