MP-IDSA Monograph Series
No. 69 February 2021

BEST PRACTICES IN FINANCIAL MANAGEMENT

Integrated Financial Advisor for Defence

Sumati Kumar

MANOHAR PARRIKAR INSTITUTE FOR
DEFENCE STUDIES AND ANALYSES
मनोहर पर्रिकर रक्षा अध्ययन एवं विश्लेषण संस्थान

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ISBN: 978-93-82169-96-3

First Published: February 2021

Price: Rs. 175/-

Published by: Manohar Parrikar Institute for Defence Studies and Analyses
No.1, Development Enclave, Rao Tula Ram Marg, Delhi Cantt., New Delhi - 110 010
Tel. (91-11) 2671-7983
Fax.(91-11) 2615 4191
E-mail: contact.idsa@nic.in
Website: http://www.idsa.in

Layout & Cover by: Geeta Kumari

Printed at: KW Publishers Pvt Ltd
4676/21, First Floor, Ansari Road
Daryaganj, New Delhi 110002, India
Mobile: +91-9873113145
Phone: +91 11 2326 3498 / 4352 8107
www.kwpub.com

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Preface

This is the second in a series of monographs titled "Best Practices in Financial Management". The first carried the sub-theme "Accrual Accounting for Defence", which is a less-frequented area in defence finance. This monograph envisaged a migration to accrual accounting from the traditional cash-based accounting, which is the prevalent manner of accounting in government. It is a complex transformation, where a gradual and incremental approach would yield better results. Continuing with the theme of adopting best practices from other similar entities, the present monograph has been written with a sub-theme of Integrated Financial Advisor (IFA) for defence.

Many valuable lessons can be learnt by examining good professional practices of organizations of a similar nature, which have proven their worth over a period of time. Their experiences can be of benefit to us if we adapt them to our own peculiar set of circumstances. Good governance being the laudable aim, our organizations can be enriched by inculcating tried and tested practices of comparable organizations elsewhere. This has been the aim of studying best practices in myriad organizations and analyzing their proven methodologies, with an eye to improve our own systems to the extent possible.

In chapter one, this monograph traces the beginning of the system of Financial Advice in India in the post-independence era, until the present day. In keeping with the need for decentralization of financial powers to respective administrative Ministries, the government had decided to devolve financial powers from the Ministry of Finance to these Ministries. This happened over a period of time and many schemes were introduced to do so. A financial advisor was placed in every administrative ministry, who functioned as the representative of the Ministry of Finance, without whose concurrence no major proposal could progress. The second chapter looks at best practices in the area of financial advice, as is prevalent in the United States of America, the United Kingdom and in Australia. Such well-established systems which have yielded good results over a period of time, have much to offer by way of suggestions for our own nascent systems. In the third chapter, a comparison has been drawn between the role of the financial advisor in the corporate sector and the financial advisor in government, with specific reference to defence. It is observed that there are many good practices which may be adopted from the private sector in government, so that we may fine tune our organizations to the modern ways of functioning. In chapter four, the focus is sharply on Ministry of Defence and its financial advisors. In keeping with the evolution of the institution of financial advisor in defence, certain suggestions have been made for expanding the knowledge base of the IFAs in defence. Possible focus areas for these IFAs in the future have also been spelt out.

My own experience of having worked as an IFA in different organizations under the Ministry of Defence gave me many insights into this area of work. Better – and not bitter – relations between finance and executive officers forms the backbone of this dominant area of work. Frequent and positive interaction between the two wings at all levels and a positive mindset on both sides would go a long way in improving the flow of work. It would lead to a better understanding of each other's perspectives and would greatly benefit the organization.

I have sourced the information in this monograph from many government letters, government websites and from standard manuals and authoritative texts which have stood the test of time. Both primary and secondary sources of information have been used while preparing this monograph.

I feel immensely privileged to have an opportunity to contribute to the publications at MP-IDSA and would like to place on record my gratitude to MP-IDSA for the same. I gratefully acknowledge the guidance and suggestions made by many senior functionaries of the government while preparing this text, who were from the Ministry of Defence, Railways, Finance, CAG and CGA. I also wish to thank the proficient and knowledgeable professionals of the private sector whom I consulted, for their stellar inputs. The extensive research work of my valued colleague Shri P. K. Singh IDAS, on IFA titled "Efficacy of the Integrated Financial Advisor System: An Analytical Study in the Central Government" provided a brilliant premise and point of reference for me. I must also thank the anonymous referees of the draft manuscript of this work, whose significant observations assisted me in further refining the publication.

Chapter 1

Integrated Financial Advisor in India

The very best of all financial plans is to spend little. (Jean-Baptiste Say)

Introduction

The role of a government is to create policies in accordance with public priorities and to allocate available resources within fiscal ceilings, in an open and transparent manner. In a growing and maturing Indian economy, there is a persistent demand for government to perform and show results. Government is expected to provide educational, medical and housing facilities, build roads, bridges and communication networks, ensure personal freedom, maintain smooth functioning of democratic institutions and cordial relations with foreign countries. This widens the scope of the economic activities of modern governments.[1]

The financial function of the government is particularly challenged by an increasingly complex scenario, where there are more demanding accountability and regulatory requirements, tremendous strides in technology and ever-changing patterns for funding sources.

Financial management practices in India are, therefore, under continuous evolution, which are given effect by the "Integrated Financial Advisor" (IFA) in each administrative ministry in the central government. The role of IFA is to secure value for money paid by the taxpayers. Public finance essentially comprises of activities of resource generation,

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[1] M.M. Sury, *Government Budgeting in India* ,Indian Tax Institute, Delhi ,1997 Edition, pp 3-4

resource allocation and resource utilisation. In recent times, the IFA has been involved in all these activities.

The evolution of the system of Integrated Financial Advice stemmed from a need to de-centralise financial powers from the Ministry of Finance. This found favour with the policy makers because it developed capacity within an administrative ministry to manage its own financial affairs.

Till India gained independence, there was an extremely centralised system of financial control, located within the Ministry of Finance. After independence, the expenditure of the government grew enormously, in size as well as in complexity. Several administrative reform committees were created by the government to look into the issue of decentralisation, such as the Secretariat Reorganisation Committee (Bajpai Committee) (1947), the Economy Committee (1949); report of Shri N. Gopalaswami Ayyangar ("Ministry of Finance was unwieldy and centralised too many functions"); and the Estimates Committee of the first Lok Sabha (itemised control should be delegated to the Heads of Ministries). A well-known authority of public administration, Paul H. Appleby[2] was engaged by the Government to survey public administration and he made pointed remarks on the over-centralisation and resultant deficiencies. Shri A. D. Gorawala was requested by the Planning Commission to give his recommendations on public administration at the time of the first Five-Year Plan. He thought it would be better if financial powers were delegated to administrative ministries and heads of departments for contingent expenditure within the budget provision.

Delegation of Financial Powers

The demand for delegation of financial powers was met by the government and greater financial powers were delegated to administrative ministries in 1953, for creation of posts and contingent

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2 M.J.K. Thavaraj, *Financial Administration of India*, Sultan Chand and Sons, 1996 Edition, pp 528

expenditure. Along with this, it was felt necessary to begin developing budgetary and financial competence within the administrative ministries, so that the financial proposals could be adequately scrutinised and vetted. Financial concurrence could then be expedited. In 1956, an Internal Financial Advisor of the rank of Deputy Secretary was posted on an experimental basis in the Ministry of Irrigation and Power. He was mandated to assist the Secretary on all financial matters.

It is interesting to note that financial advisor to individual ministries had earlier been experimented with during the Second World War, when defence, post and telegraph and railways had a financial advisor earmarked for them for the period of the War. In fact, in 1945-46, Richard Tottenham had suggested that each department which spends must be given an officer who was well versed on finance to advise them on financial issues. Further, he advised that such an officer must behave more like the part of the administrative department than as an officer of the finance department.

A scheme of "Attached Financial Advisor" was introduced by the then Finance Minister, TT Krishnamachari in 1957. An officer of the rank of Under Secretary or Deputy Secretary was attached to each ministry or department as "Attached Financial Advisor". The AFA was maintained on the strength of Ministry of Finance. The scheme, however, did not continue for long.

A major development occurred in 1958 when the government introduced a scheme of delegation of financial powers. This was based on the recommendation of the Public Accounts Committee and the suggestions of Shri A. K. Chanda, the then Comptroller and Auditor General. Main features of the scheme included:

1) Posts which carried a pay scale of Rs. 2250 or less per month were included in the powers for creation of temporary posts for a period of two years.

2) An amount of Rs 50 lakhs was set as the limit for administrative ministries for sanctioning a scheme, with certain inbuilt conditions.

3) In case the manner of utilising a grant had already been approved by Ministry of Finance, administrative ministries were given full powers for sanctioning grants-in-aid and loans.

4) Administrative ministries were delegated full powers with regard to miscellaneous expenditure and expenditure on contingencies and stores.

5) Administrative ministries were to consult Ministry of Finance in respect of contracts and purchases only when their value exceed Rs. 35 lakhs. However, in case of a single tender contract, the limit was Rs. 10 lakhs. The Finance Ministry was also to be consulted in case of an indent for stores of a proprietary nature the value of which exceeded Rs. 5 lakhs.

6) Under this scheme, powers were delegated to the ministries in matters of re- appropriation of funds, except in certain cases.

The aim of the delegation was to decentralise financial powers. Under this scheme, a designated financial advisor of appropriate rank was provided to the ministries and it was mandatory for them to exercise their newly delegated financial powers in consultation with the Internal Finance Advisors. The Internal Finance Advisors were subordinate to the Secretary of the administrative ministry. In cases where the advice of the financial advisor was not accepted, it was to be brought to the attention of Ministry of Finance and the Comptroller and Auditor General.

The system of Internal Financial Advisor continued to evolve, and further delegation of financial powers to ministries was brought in by a fresh scheme introduced in 1962. The salient features of this scheme were:

1) The focus was on budget proposals submitted by various ministries to the Finance Ministry. They needed to be submitted a few months prior and were to be made in as much detail as possible. The schemes that were sent to the Ministry of Finance were to be similarly dealt with and they were to be scrutinised in great detail by Ministry of Finance too before acceptance.

2) The new schemes which were finally accepted were to be implemented with care and ministries were to make all efforts towards this end.

3) Another provision was with regards to projects. Here the ministries were empowered to sanction any amount, if that particular project had already been scrutinised and accepted by the Ministry of Finance.

4) With regard to items which had already been included in the budget after due scrutiny, delegation was made to the ministries in such a manner that they could sanction the expenditure whether they were new items or not, as long as they did not vary the ceiling provided for in the budget.

5) The ministries were authorised to create posts carrying up to and inclusive of Rs. 2250 pm in the revised scale of pay.

6) 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.

7) 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 up to the limit vested in them.

8) A study unit was to be created in every ministry which was mandated to aid the ministry in making the norms for various kinds of work. It would also look into any proposal for reorganisation of staff or of post creation.

This scheme envisaged the financial advisor to be a part and parcel of the administrative ministry. Though he was an important link between the administrative ministry and Ministry of Finance, this scheme designated the Secretary of the ministry as the final authority to decide on each issue, after taking the advice of the financial advisor. There was henceforth no need to convey the case of disagreement to the Ministry of Finance and the CAG.

The scheme of 1962 was further reviewed in 1967 and the Ministry of Finance delegated larger financial powers to the administrative ministries in 1968. Main features of this scheme were:

1) Time schedule for formulation of budget proposals was re-emphasised for strict adherence in order to allow sufficient time for proper scrutiny by the finance ministry of expenditure proposals given by the administrative ministries and for any subsequent discussions that may become necessary on the basis of such scrutiny.

2) Another provision related to re-appropriation, for which full powers were given to the ministry within the grant. However, the condition was that they could not use funds intended for plan schemes for non-plan schemes.

3) There was emphasis on the financial competence being available to the ministry itself, internally. It disfavored 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.

4) Ministries were required to strengthen their internal work study units for the efficient discharge of their functions.

5) 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.

6) 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-organisation of staff.

7) 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.

8) 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.

9) 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.

10) 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 statements to the associated financial advisors.

It was under this scheme that an exhaustive list of functions to be performed by the financial advisor was listed out. Later charters of the duties and functions of financial advisor have largely been based on this list.

The first Administrative Reforms Commission was tasked with examining the role and functions of the financial advisor. The Commission submitted its report to the Government in January 1968 and the following were its recommendations:

1) "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 or office management etc. It would be open to the government to entrust one officer with the work relating to more than one ministry/ department

2) 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 the individual ministry. A set of model rules should be framed for the guidance of administrative ministries in the matter

3) The finance and accounts branch of the administration should be suitably strengthened wherever necessary and staffed with qualified and well-trained personnel

4) The finance ministry should help the administrative ministries to organise 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 level opportunities to achieve varied experience and knowledge of public administration

5) 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

6) There should be a provision for periodic interchange between the officers of the finance branches and other branches of administration."[3]

Enhanced Delegation of Financial Powers

The next step was the scheme of "Integrated" Financial Advisor as delineated by the Ministry of Finance in 1975.[4] The intention was to improve internal competence of administrative ministries in matters concerning finance, while bestowing greater responsibilities on them by way of enhanced powers. Henceforth, the new scheme of Integrated Financial Advisor was commenced, and the earlier system of having an Internal Financial Advisor who would look after Budget and Accounts Section and a separate "associate" financial advisor based in the Department of Expenditure of the Ministry of Finance (to be consulted on matters falling outside the delegated powers), promulgated in 1968, was done away with. As per the new scheme, the Integrated

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3 www.krishikosh.egranth.ac.in (Accessed July 20,2019)

4 OM No. F.No. 10(29)- E.Coord/73 dated October 6, 1975

Financial Advisor would advise on the delegated and financial powers as freshly delegated in 1975, and beyond the delegated powers, he was to work as per the guidance of the Finance Ministry. He would be of assistance in the budget making exercise, assess the various programmes before they were presented to the Ministry of Finance and monitor the expenditure at later stages to make sure that the Ministry does not have either a shortfall in expenditure or an excess, for which provisions had earlier not been made in the budget.

This scheme was initially introduced in certain select ministries and later adopted for all ministries. The officers and staff of associate Finance Division of Department of Expenditure were also transferred to administrative ministries as per the requirements.

After 1975, a plethora of economic reforms took place in India. The institutionalised financial management systems were in need of matching reforms. The institution of financial advisor was a key position in the government which required a re-look in the changed global scenario. The system of Integrated Financial Advisor as articulated in 1975, therefore, continued to evolve and it was given a concrete shape once again in 2006[5]. With the maturing of the Indian economy and the need to match our systems with worldwide trends, Ministry of Finance gave detailed definition to the role of Integrated Financial Advisor by this new scheme.

The concept of the financial advisor was clearly defined to mean assisting the achievement and goals of the administrative ministry, facilitating implementation of approved programmes with due financial prudence, ensuring that funds allocated are spent timely and correctly on the intended outcomes defined in measurable and monitorable terms. Ensuring "value for money" was a key objective of the role of the financial advisors. FAs would represent the Ministry of Finance in regards to financial matters as well.

5 F. No. 5(6)/L&C/2006 dated June 1, 2006

The role of financial advisor was thus, now conceived to be more akin to a Chief Financial Officer in a corporate structure. They would bring requisite financial expertise, and overall perspective of financial management of the government, as enunciated by the Ministry of Finance, in the rendering of "professional advice" to the secretaries of the administrative ministries on all matters which have financial implications. Financial Advisors were to accord priority to macro management issues of the respective ministry, which could be related to "schematic appraisal and concept functions, revenue management, subsidy management, fiscal resource transfer issues, defining and evaluating outcomes besides maintaining and safeguarding the budgetary integrity, etc. FAs' would also be expected to look at the total picture of resources for the sectors in which they were functioning, and assist the secretaries of the administrative ministries to move towards greater resource mobilisation, including in terms of enabling policy and regulatory frameworks to attract private sector funds."

While Appendix 2 of DFPR continued to be the main guide for the duties of the financial advisor, certain specific tasks were also spelled out by this scheme:

Budget Formulation: - More analytical inputs were to be brought in. A move towards more 'itemised' to 'budgetary' control would be required, as also towards zero based budgeting. Better inter-se programme allocation based on analysis would be required and an increased involvement of FAs in the budgetary process.

Outcome Budget: To be prepared by late March each year on the basis of "Annual Financial Statement" presented to Parliament. Outlays were to be reflected in terms of outcomes in this budget, in terms of monitorable and measurable means.

Performance Budget: To be prepared by late March each year. This would indicate the 'outcome' of the outcome budget of the previous year. The Performance Budget was to give a picture of the actual achievements/performance of the previous year. Active involvement of FAs was envisaged in the preparation of this document. In essence, Budget Formulation, Outcome Budget and Performance Budget were to link present, future and past in an integrated manner.

FRBM related tasks: The Fiscal Responsibility and Budget Management Act requires that the government places before parliament disclosure statements along with Annual Financial Statements and Demands for grants. FAs were expected to prepare such statements.

Expenditure and cash management: As before, FAs were to be responsible for this. Monthly cash flow work was to be monitored effectively.

Project/programme formulation, appraisal, monitoring and evaluation: High-quality appraisal needs to be done and FAs were tasked with ensuring this.

Screening of proposals: FAs were to screen all the proposals which were to be forwarded to the Ministry of Finance.

Leveraging of non-budgetary resources for sectoral development: FAs would assist the administrative ministries in evolving strategies for optimising private sector investment and public-private partnership by enabling policies/ schemes and appropriate regulatory framework, formulating projects for external funding and taking innovative measures for leveraging of non-budgetary resources for sectoral development.[6]

Non-tax receipts: FAs were mandated to periodically review various non-tax revenue receipts under control of the Ministry, in the context of market trends and other sectoral developments. FAs were expected to act as a catalyst in moving towards a regime in which the user charges recover the cost of service fully or substantially, and in case of only partial recovery to ensure that subsidy element is clearly quantified.

Tax Expenditure: FAs were to also monitor tax expenditures i.e. the revenue foregone by government on account of various exemptions and concessions. Within administrative ministries, such proposals were to be routed through FAs before finalisation.[7]

Monitoring of assets and liabilities: Each ministry was to have a comprehensive record of its assets and liabilities. FAs were to take appropriate action for creating asset registers and for updating them

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6 www.openknowledge.worldbank.org (Accessed July 20, 2019)

7 Ibid

so that assets could be maintained and optimally utilized.as also for the maintenance and optimal utilisation of the asset. FAs in ministries with significant real estate assets/ property (land, buildings etc.) were to make a critical analysis of their utilisation.

Accounts and Audit: FAs were to be kept informed about the overall quality of maintenance of departmental accounts. FAs were also to progressively review the progress of internal audit and actions taken thereon, so as to make it an important tool for financial management.[8]

Procurements and Contracts: FAs were required to set up strong internal systems to ensure due diligence and strict observance of MoF's guidelines in this regard.[9]

Financial Management systems: FAs were to periodically review the financial management of various programmes/ projects of the Ministry from the systems point of view and take action for making the financial management system more effective.[10]

Nominee Directors on Boards of PSUs: As the nominees of the government on the Boards of PSUs, FAs were expected to bring strong requisite expertise to bear on all major issues considered by boards.

Use of Technology: FAs were mandated to encourage increased use of technology, specially communications and information technology, not only in their domain but also in the domain of ministries/departments with a view to ensure better utilisation of government resources and improved delivery of public services to achieve intended results.

Further developments have taken place recently. Ministry of Finance constituted a committee of Financial Advisors on the subject "Revision of the Charter of Financial Advisor", which submitted its report on 31 October, 2018. The committee based this revised charter on extensive interaction with financial advisors and other stakeholders. This

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8 Ibid

9 Ibid

10 www.nicf.gov.in (Accessed July 20,2019)

charter is presently under circulation for comments and eventual finalisation.

List of Financial Advisors[11]

A list of IFAs in position as of now in various ministries is given as below:

S. No.	Designation, Address	Main Charge
1	Secretary (Defence Finance), South Block, Delhi	M/o Defence
2	Financial Commissioner	M/o Railways
3	Member(Finance), Room No.212, Sanchar Bhawan, Ashoka Road, Delhi	D/o Telecom
4	Member (Finance)	Space Commission, Atomic Energy Commission and Earth Commission
5	SS & FA, R.No.35, Udyog Bhawan, Delhi	M/o Commerce & Industry, D/o Heavy Industry, D/o Public Enterprises
6	JS&FA, D/o Space, Antariksh Bhawan, New BEL Road, Bangalore - 560 231	D/o Space, Delhi address: US, 2nd Floor, Lok Nayak Bhavan, New Delhi
7	AS & FA, R.No.549, Shastri Bhawan, Delhi	M/o Information & Broadcasting, M/o Women & Child Development, NITI Aayog, M/o Statistics & Programme Implementation
8	AS & FA, R.No.208-A, Shastri Bhawan, Delhi	M/o Petroleum & Natural Gas, M/o Corporate Affairs
9	AS & FA, R.No.244-A, Nirman Bhawan, Delhi	M/o Health & Family Welfare

11 https://doe.gov.in/list%20of%20financial%20adviser (Accessed July 11, 2019)

S. No.	Designation, Address	Main Charge
10	AS & FA, R.No.173, Krishi Bhawan, Delhi	M/o Consumer Affairs, Food & PD
11	AS & FA, R.No. 318-C, Shastri Bhawan, Delhi	M/o Culture, M/o Law & Justice, M/o Tourism
12	SS & FA, North Block, Delhi	MHA, M/o Personnel, PG&P
13	AS & FA, R.No. 144-C, South Block, Delhi	M/o External Affairs
14	AS & FA, SAI Building, JLN Stadium, Delhi	M/o Youth Affairs & Sports, MeitY (Temporary Charge)
15	AS & FA, Shram Shakti Bhawan, Delhi	M/o Labour & Employment, Ministry of Skill Development and Entrepreneurship
16	SS & FA, R.No.294, Udyog Bhawan, Delhi	M/o Steel, M/o MSME
17	AS & FA, Krishi Bhawan, Delhi	M/o Rural Development, M/o Panchayati Raj, M/o Drinking Water & Sanitation
18	AS &FA, R.No.405, Shram Shakti Bhawan	M/o Power
19	AS & FA, Indira Paryavaran Bhawan	AS & FA, Indira Paryavaran Bhawan
20	AS & FA, R.No.: 236-B, Udyog Bhawan, Delhi	M/o Textiles
21	AS & FA, Shastri Bhawan, Delhi	M/o Chemicals & Fertilizers
22	AS &FA ,R.No. 4069, Electronics Niketan 6, CGO Complex, Lodhi Road, Delhi	M/o Electronic & Info. Technology
23	JS & FA, Room No.217-D, Shastri Bhawan, Delhi	M/o Tribal Affairs
24	AS & FA, Dak Bhawan, Delhi	D/o Posts

S. No.	Designation, Address	Main Charge
25	AS & FA, Rajiv Gandhi Bhawan, Delhi	M/o Civil Aviation, M/o Food Processing Industries, M/o New & Renewable Energy
26	AS & FA, Technology Bhawan,Delhi	D/o Science & Technology, D/o Biotechnology, M/o Earth Sciences
27	JS & FA, R.No.141-C, Nirman Bhawan, Delhi	M/o Housing & Urban Affairs, M/o DONER
28	JS & FA, Shram Shakti Bhawan, Delhi	M/o Water Resources, River Dev. & Ganga Rejuvenation, M/o Minority Affairs
29	JS & FA, Anusandhan Bhawan, Delhi	D/o Scientific & Industrial Research, CSIR
30	JS & FA, Shastri Bhawan, Delhi	M/o Coal, M/o Mines
31	AS & FA, 166-C, North Block, Delhi	M/o Finance, M/o Parliamentary Affairs, Misc. Departments
32	JS & FA, Shastri Bhawan, Delhi	M/o Human Resource Development
33	JS & FA, Shastri Bhawan, Delhi	M/o Social Justice & Empowerment, M/o Tribal Affairs (temporary charge)
34	AS & FA, R No.408, Transport Bhawan, Delhi	M/o Road Transport & Highways, M/o Shipping
35	AS & FA, Krishi Bhawan, Delhi	M/o Agriculture, Cooperation & Farmers' Welfare

As may be observed from the above, the role of the Financial Advisor is evolving and he/she is expected to play a very pro-active and positive role in the entire gamut of public financial management, which now goes far beyond the older mandate of accounting, budgeting and expenditure control. The FAs are to be co-partners in driving reforms towards good governance. They are clearly facilitators and advisors to their administrative ministries. Therefore, finance is set to become a more specialist rather than a generalist function in the ministries and departments of the Government of India.

Financial set up in Railways and Defence

The financial set up of the ministries of defence, railways and posts have traditionally been somewhat different from the others. These have had their own organised accounts services for a long time, since they entail substantial public expenditure.

"The functions of Railway Finance Officers have now developed beyond the traditional bounds of those of the financial accountants. These are no longer restricted to tendering advice to the Administration whenever required or necessary in all matters involving railway finances. The Finance Officer's job as a Management Accountant is to furnish and interpret financial statements, compile cost data and prepare cost reports, explore avenues of controlling staff and material costs, institute and operate budgetary control procedures, and participate in all Capital expenditure and rating/pricing decisions. This involves an irrevocable commitment to Management, and calls for a high degree of professional training and competence."[12]

"Finance Division in the Ministry of Defence[13] deals with all matters having a financial implication. This Division is headed by Secretary (Defence Finance)/Financial Adviser (Defence Services) and is fully integrated with the Ministry. It performs an advisory role. The Ministry of Defence enjoys enhanced delegated financial powers to facilitate quicker decision making. These powers are exercised with the concurrence of the Finance Division. Finance Division prepares and monitors Defence Services Estimates, Civil Estimates of the Ministry

12 http://www.indianrailways.gov.in/railwayboard/uploads/codesmanual/irfc1/chapter%20-%201%20(R).pdf (Accessed July 20,2019)

13 https://mod.gov.in/dod/finance-division (Accessed July 20,2019)

of Defence and the Estimates in respect of Defence Pensions. The responsibilities of the Finance Division are:

1. To examine all Defence matters having a financial bearing.
2. To render financial advice to the various functionaries of Ministry of Defence and the Services Headquarters.
3. To act as integrated Finance Division of Ministry of Defence.
4. To assist in the formulation and implementation of all schemes / proposals involving expenditure.
5. To assist in the formulation and implementation of Defence Plans.
6. To prepare Defence Budget and other estimates for the Defence Services, Civil Estimates of Ministry of Defence, estimates in respect of Defence Pensions and to monitor the progress of the scheme against the budget.
7. To exercise post-budget vigilance to ensure that there are neither considerable shortfalls in expenditure nor unforeseen excesses.
8. To advise heads of branches of the Armed Forces Headquarters in the discharge of their financial responsibility.
9. To function as the accounting authority for the Defence Services.
10. To prepare the Appropriation Accounts for the Defence Services.
11. To discharge the responsibility for payments and internal audit of Defence expenditure through the Controller General of Defence Accounts."

Subsequent chapters would focus on defence and its financial advisors in greater detail.

Chapter 2

Learnings from Finance Officers in International Arena

"One weakness in our governance is the incapacity to institutionalise the best practices from our own country and elsewhere. A conscious effort not only to identify and document best practices but also build policy and create new structures and institutions to allow mass replication needs to be made"

(Second Administrative Reforms Commission – Approach Paper, 2005).

Introduction

It would be worthwhile to examine the growth of institutions of the "Chief Financial Officer" of the US and Australia, or the "Finance Director" of the UK, which are the parallel institutions to IFAs in India. This would generate ideas for further evolution of the system in our country, with specific focus on defence. The US and Australia are often held out as pioneers in the field of reforms in public administration. The UK was a model for us till we gained independence. The finance function in these developed countries is a specialised function, manned by people qualified for this job. The work content is well defined. There is scope for the private sector to enter into this arena as well.

United States

"I think of it as an object of great importance…to simplify our system of finance, and to bring it within the comprehension of every member of Congress…the whole system has been involved in impenetrable fog. There is a point…on which I should wish to keep my eye…a simplification of the form of accounts…so as to bring everything to a single centre; we might hope to see the finances of the Union as clear and intelligible as a merchant's books, so that every member of

Congress, and every man of any mind in the Union, should be able to comprehend them to investigate abuses, and consequently to control them. (Thomas Jefferson, April 1802)" [14]

In 1990, the Chief Financial Officer Act (CFO Act) was adopted to improve the general and financial management practices of the federal government by establishing a structure for the central coordination of financial management. The Act provided for the implementation of accounting systems and internal controls to produce reliable financial information and to deter waste, fraud and abuse. Additionally, the Act required extensive changes in reporting to improve the information available to administrators and to the Congress. The CFO Act changed federal financial management in three ways: it created a new organisational structure for financial management, it encouraged the development of new and compatible accounting systems, and it required new forms of reporting.[15]

The Chief Financial Officer Act 1990[16] gives a legislative basis for the working of the Chief Financial Officers in the US Federal agencies/ departments. Further, it states the authority and functions of the Chief

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14 https://founders.archives.gov/documents/Jefferson/01-37-02-0132#:~:text=I%20think%20it%20an%20object,of%20every%20member%20of%20Congress. (Accessed December 25, 2019)

15 https://www.encyclopedia.com/finance/finance-and-accounting-magazines/chief-financial-officers-act-1990-and-federal-financial-management-act-1994 (Accessed November 13, 2019)

16 "The Chief Financial Officers Act of 1990—20 Years Later - Report to the Congress and the Comptroller General." https://www.ignet.gov/sites/default/files/files/cigiecforpt0711.pdf (Accessed November 11, 2019) Overall, many benefits have been derived from the Act. These benefits are far-reaching and have impacted a number of programs, activities, entities, individuals, and Executive Branch and Congressional decision-makers. Implementation of the Act over the years has increased transparency, fostered accountability, established a government-wide financial management leadership structure and agency CFOs, promoted new accounting and reporting standards, generated auditable financial statements, strengthened internal control, improved financial management systems, and enhanced performance information.

Financial Officers. The operational guidelines for functioning of a Chief Financial Officer, is given by the Office of Management and Budget (OMB, which functions under the President of the US). Also, under the OMB is the Controller in the Office of Federal Financial Management, who functions as the accounting authority for the entire Federal Government.[17]

The head of the Federal department/agency is the Secretary. He/ she is ultimately responsible for running the agency, and the Chief Financial Officer reports to the Secretary. Chief Financial Officer is also required to keep communication channels open with the OMB[18], though they do not report to the OMB. Thus, the Chief Financial Officer plays a supportive and advisory role to the department. It is finally the departmental Secretary who takes the final call on all issues. The Chief Financial Officer gives all the available financial inputs to the Secretary

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17 "India – The role of the Integrated Financial Adviser in the Government of India" wbdocsservices.worldbank.org/services?14_SERVICE=FILE_URLS2&RENDITION=Y&14_DOCID=090224b0828c25d4&stream=Yes: (Accessed November 11,2019) Other PFM legislation in the US includes the Government Performance and Results Act, 1993; the Government Management Reform Act 1994; the Federal Financial Management Improvement Act, 1996; the Information Technology Management Reform (Clinger-Cohen) Act, 1996; and the Government Paperwork Elimination Act, 1998. The Government Performance and Results Act makes Federal agencies accountable for achieving programme results through the provision of objective information on achieving statutory objectives and on the relative effectiveness and efficiency of Federal programmes, as an aid to Congressional decision making and improving the overall performance of government. The Government Management Reform Act expanded the CFO Act by requiring an audit of agency financial statements and preparation of government-wide financial statements. The Federal Financial Management Improvement Act requires agencies to provide uniform, reliable, and more useful financial information. The Information Technology Management Reform Act focuses on improving the acquisition, use and disposal of IT resources. The Government Paperwork Elimination Act moves more citizen and business transactions to the web (e-government).

18 "Office of Management and Budget" https://www.whitehouse.gov/omb/ (Accessed November 11,2019) OMB's mission is to assist the President in meeting his policy, budget, management and regulatory objectives

who may assist him/her in coming to a decision. The inputs of the Chief Financial Officer are particularly important in preparing the budget. Later, the OMB guidelines are followed and the expenditure is monitored by the Chief Financial Officer.

Government Accountability Office[19] (GAO) is an organisation meant to conduct external evaluation and audits of a government department's policies and programmes. Conducting fraud investigations and compliance assessments are also part of their job. The various Congressional committees, in their reviews of the reports of the GAO, expect the Secretary to testify on matters related to the budget and policy, while the Chief Financial Officer is meant to certify finance related matters.

The Chief Financial Officer is an appointee of the President, for which the Senate's consent is required. It is a position at the level of the Cabinet, similar to that of the Secretary. Chief Financial Officers must be appointed by the head of the concerned agency. The CFO Act states that the appointee must have "extensive practical experience in financial management practices in large governmental or business entities." Exact qualifications for the post are not specified. The skills required for this position inter alia include budget formulation, management of accounting, performance auditing and great proficiency in implementation of internal controls. The Chief Financial Officers in the US are taken from the public or the private sectors. Many times, the Chief Financial Officers already have relevant sectoral experience of the concerned sector in the private arena and this helps them in their work in the concerned government department. Therefore, the chances of a generalist administrator being appointed as Chief Financial Officer are almost nil. The CFO positions are political appointments and they

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19 https://www.gao.gov/about/ (Accessed November 11, 2019) The U.S. Government Accountability Office (GAO) is an independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," GAO examines how taxpayer dollars are spent and provides Congress and federal agencies with objective, reliable information to help the government save money and work more efficiently

are not advertised. They are simply known by word of mouth. Thus, it is clear that a Chief Financial Officer is an important political appointment, standing on a definite statutory basis.

It follows that the period of service of the Chief Financial Officer would be at the pleasure of the President. It is common that a Chief Financial Officer changes when the President changes. Therefore, as it happens, usually the period of service of a Chief Financial Officer would be around two years or less. There is no career progression in the department as the CFO already heads the finance wing. The only possible change could be if the CFO is appointed Secretary.

The Chief Financial Officers are usually professional accountants. They identify their training needs as they may arise. Chief Financial Officers as professionals are required to continue professional development. Many agencies can provide that training. The CFO Council[20] also has six committees, such as Financial Management and Policies Committee and Best Practices Committee, which may assist Chief Financial Officers to assess their needs for any training. Newer areas in which the Chief Financial Officer might need training could be: linking performance to accountability, improved internal controls as per Sarbanes-Oxley legislation[21], cost and management accounting to improve the output from programmes, specialty accounting for asset management, performance auditing, debt management, etc. and quicker reporting to enable timely financial reports for the management.

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[20] https://cfo.gov/ (Accessed November 11,2019) The Council was established pursuant to Chief Financial Officers (CFO) Act of 1990 (Public Law 101-576). It is an organisation of the CFOs and Deputy CFOs of the largest Federal agencies, senior officials of the Office of Management and Budget, and the Department of the Treasury who work collaboratively to improve financial management in the U.S. Government. The Council was established under the provisions of the CFO Act of 1990 to advise and coordinate the activities of the member agencies on such matters as consolidation and modernization of financial systems, improved quality of financial information, financial data and information standards, internal controls, legislation affecting financial operations and organizations, and any other financial management matter.

[21] https://pcaobus.org/About/History/Documents/PDFs/Sarbanes_Oxley_Act_of_2002.pdf (Accessed November 11, 2019)

The Chief Financial Officer bears responsibility for the entire range of financial management activities, which would include preparation of annual financial statements. These statements finally bear the signatures of the Secretary. The Chief Financial Officer supervises the financial management of the agency, keeps close watch on the accounting and financial management software, which helps in giving data on internal controls and financial reporting. This must also comply with applicable accounting standards. All federal agencies have similar CFO functions.

Federal budget proposals are prepared by OMB; appropriations are passed by Congress, after which OMB authorises the release of funds to the department.[22] The Chief Financial Officer needs to be actively working with the budget side of OMB, by projecting agency requirements and working in close contact with OMB, after the appropriations are passed.

There is no system of performance appraisal in the case of the Chief Financial Officer. The benchmark of the output of a CFO is interpreted as per the department's financial performance.

The OMB bears the responsibility of evaluating the departments' performance. They use a method known as 'balanced scorecard method '[23] [24] that utilises financial indicators to do so. These indicators may include compliance with various acts, submitting timely financial reports, obtaining clean audit reports and certifying that there were no improper payments. Such a transparent evaluation of a federal department's performance plays a major role in proper financial management. Differences of opinion, if they arise, among the persons holding the posts of the Chief Financial Officer and Secretary, may be resolved by mutual consultation.

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22 www-wds.worldbank.org (Accessed November 11, 2019)

23 "Conceptual Foundations of the Balanced Scorecard", Robert S. Kaplan, Harvard Business School https://www.hbs.edu/faculty/publication%20files/10-074_0bf3c151-f82b-4592-b885-cdde7f5d97a6.pdf (Accessed November 14,2019)

24 http://www.businessofgovernment.org/sites/default/files/Scorecard.pdf (Accessed November 14,2019)

The Chief Financial Officer has a deputy Chief Financial Officer and many other finance personnel who are there to look after various aspects like cash and asset management. The number of staff would depend on the nature of work in that department.

All the staff are career finance and accounts personnel, with requisite certifications. They improve upon their knowledge by training themselves with higher professional courses, while on the job. There may be certain specific areas where they may gain higher proficiency too, such as internal controls, performance measurement, cost accounting, balanced scorecard measurement, budget planning and IT capital investments. Training may be given to the staff by the agencies themselves or by outside institutions meant for the purpose.

United Kingdom

The position is named as Finance Director (FD)[25] in the United Kingdom. There is no legislative mandate for the FD here. The FD draws his mandate from executive instruction. There is a legal backing, however, for the Accounting Officer[26]; Treasury administrative instruction 'Government Accounting 2000' states that the Accounting Officer (Permanent Secretary of a department) would need a senior finance manager. Thus, all agencies have a Finance Director. Any commitment of resources has to bear the approval of the Treasury.

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25 https://www.gov.uk/government/organisations/civil-service-government-finance-profession (Accessed November 14,2019)

26 https://www.instituteforgovernment.org.uk/sites/default/files/publications/Following%20the%20pound%20-%20accounting%20officers%20in%20central%20government.pdf (Accessed November 14, 2019) Accounting officers are central to how government spending is controlled. Always the most senior official in a department – the permanent secretary – accounting officers are personally accountable to parliament for the use of public money. They must sign the department's accounts, but accounting officers have more extensive responsibilities beyond the department's financial health. They are accountable to Parliament for how every penny of public money is spent.

The authority to spend as per defined limitations is given to various departments by the Treasury. Delegated authority is exercised by the head of department.

The Finance Director is professionally qualified[27], and "has board status equivalent to other board members, reports directly to the permanent head of the organisation and is a member of the senior leadership team, the management board and the executive committee (and/or equivalent bodies). This demanding leadership role requires a persuasive and confident communicator with the stature and credibility to command respect and influence at all levels throughout the organisation. The Finance Director must maintain a firm grasp of the organisation's financial position and performance. Supporting the accounting officer, the finance director should ensure that there is sufficient expertise, supported by effective systems, to discharge this responsibility and challenge those responsible for the organisation's activities to account for their financial performance. It is important that financial management is taken seriously throughout the organisation."[28]

Finance Directors are usually at the level of Managing Director. Every department consists of a Management Board and FD is a member of the same. The Board strategizes for the long term, decides on investment decisions and ensures that the departments risk management and business planning is sound. For smaller agencies, FD could be at the level of Director, but would be present at Board meetings. The Management Board normally has monthly meetings.

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27 The term professional finance director in this context means both being a qualified member of one of the five bodies comprising the Consultative Committee of Accounting Bodies (CCAB) in the UK and Ireland, ie the Chartered Institute of Public Finance and Accountancy, the Institute of Chartered Accountants in England and Wales, the Institute of Chartered Accountants of Scotland, the Institute of Chartered Accountants in Ireland, the Association of Chartered Certified Accountants, or having equivalent professional skills and/or qualifications; and having relevant prior experience of financial management in either the private or the public sector

28 www.publicchairsforum.org.uk (Accessed December 25,2019)

The FD has to take collegiate responsibility for all decisions that the Board may take, since he/she is a member of the Board. Ultimate responsibility for the decisions remains with the Accounting Officer. FD owes responsibility to his/her line superior, but does have sufficient independence to work within that framework.

The FD assists the Accounting Officer in evolving the goals of the department; developing plans; deliberating on the best way to allocate resources; deciding between competing priorities; extracting the best possible from the pay bill; and overall making sure that the employees maintain regularity and propriety in all matters.

FD in every department has certain specific responsibilities, according to the nature of the department, such department-specific elements are given out separately. The general nature of the position requires the following to be done: scrutiny of departmental expenditure proposals; coordinating of planning proposals; preparing estimates; monitoring of delegated authority for expenditure; advising the Secretary whether the proposal for expenditure is sound or not ; preparation of accounts; maintaining systems for costing; at each stage it is to be ensured that Government Accounting Manual is followed; curbing spending so that it remains within the estimate for it; keeping track of reporting expenditure regularly and reporting it to the authorities; keeping track of the arrangement for banking; making payments accurately; ensuring that charges are recovered as per the rules in vogue; the rules for procurement must be clear to the functionaries and ensuring compliance with Treasury rules; good liaison with external auditors (National Audit Office, or NAO)[29] .

The Finance Director is also responsible for ensuring internal financial discipline. He/she has to maintain strong and effective policies to control and manage the resources of the organisation. This includes enhancing

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29 https://www.nao.org.uk/ (Accessed December 25,2019)

the financial literacy of budget holders of the organisation.[30] The FD looks after the procurements. He/she would need to make sure that the procedures related to procurement are quite clear to all the concerned employees. These procedures must also be as per the guidelines of the Treasury. A system must be set up and maintained for following procurement procedures. FD is the key member of the organisation who puts his/her mind to generate funds from public-private partnership, though bigger programmes under the aegis of the Private Finance Initiative[31] may involve outsiders for advice. The FD must be competent and more importantly, should have a holistic comprehension of the legislative structure of the government. He/she must be a good leader and should have the requisite skills to interpret and analyse financial information for solving complex problems and analysing complex options. For the last several years, it has become usual for an FD to be a professionally qualified accountant, who has had worked at senior levels. Most of government expenditure is now in the hands of such qualified accountants. Though the post is open and selection is by merit, with entry possible from both private and public sector candidates, FDs are picked up by far much more from the private sector. In fact, even public sector experience is considered as "useful but not essential". Nowadays fewer FDs have moved up through the civil service as compared to private sector professionals.

The heads of departments enjoy the status of an employer; therefore, every department may come up with their own procedures for recruitment which suits their requirements. But these procedures and the resultant recruitments must comply with the central guidelines or

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30 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835558/Managing_Public_Money__MPM__with_annexes_2019.pdf (Accessed December 25,2019)

31 https://www.investopedia.com/terms/p/privatefinanceinitiative.asp (Accessed December 25, 2019) Private finance initiatives were first implemented in the United Kingdom in 1992 and became more popular after 1997. They are used to fund major public works projects such as schools, prisons, hospitals, and infrastructure. Instead of funding these projects up front from taxpayers, private firms are hired to finance, manage, and complete the projects.

the Recruitment Code, issued by the CSC, Civil Service Commission[32]. Thus, CSC would undertake audits of policies regarding recruitment and its approval must be sought for each external recruitment. There are broad principles of the CSC which mainly cater to the fairness of the selection. At times, the services of external agencies may be utilised for recruitments. The Treasury is always kept informed of applicants and is free to make comments or be a part of the agency's interview panel.

In the UK, there is no distinct cadre of accounts and finance. The Government Finance Profession is not a cadre but a professional association. They function as a portion of the civil services. Payment terms would be negotiated with the person who is selected. Tenure would depend on the terms of contract, but most FDs are on permanent tenure. FDs may apply for transfer. Director level FDs could become Managing Directors through promotion.

As seen above, FDs are qualified professionals, who are free to avail of programmes which help to progress their professional development. The recruitment process assesses their professional skills. The Professional Skills in Government Initiative enumerates essential skills which are adopted by the Civil Service Management Board. New FDs are initially mentored by another FD of the same ministry. The Treasury arranges quarterly meetings for FDs, which all FDs usually attend. Many training institutions offer relevant courses. All FDs would be subject to Annual Performance Report (APR). FD's APR is assessed by the Head of the Department. The Treasury does not give any inputs for this.

The FD heads the Finance Directorate. Each department develops its own structure for Finance Directorate. Under the FD, there is a Chief Accountant. Up to two levels below FD, qualified accountants fill up the posts. All the finance staff must be trained for the finance function,

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32 https://civilservicecommission.independent.gov.uk/ (Accessed December 25, 2019) They are appointed through public open competition and are independent of the Government and the Civil Service. Established by statute to provide assurance that civil servants are selected on merit on the basis of fair and open competition; and to help safeguard an impartial Civil Service.

the procurement personnel must be trained for procurement, and so on. FDs are to manage their staff, which begins with recruitment, their professional grooming and their performance management.

Australia

An Act called the *Financial Management and Accountability Act* 1997, and Regulations 1997 (FMAA) [33] was enacted with the purpose of better management of public money. This was in response to a notion that there could be better financial management of public resources. The idea was to 'let the managers manage' and through this Act, substantial delegation of powers from the Department of Finance to the Chief Executives of various federal agencies took place, which further led to delegation of powers to different officers in an agency, such as the Chief Finance Officer. Thus, there is a legislative authority for the mandate of the CFO. The internal controls of an agency are determined by Chief Executive Instructions, CEI, which carry the force of law too.

Federal Commonwealth departments are generally provided with a Chief Financial Officer (CFO). In the less elaborate departments, the CFO and Head of Corporate Services may be entrusted on the same person. Though the role and responsibilities of the CFO are not laid down in any guidelines, it does get backed up by legislation as mentioned above. The role of the CFO may be different in different agencies according to the way the CE may choose to determine the CFO's responsibilities. The FMAA[34] gives the accountability for financial

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33 https://www.legislation.gov.au/Details/C2013C00282/Controls/ (Accessed November 11, 2019) The main purpose of this Act is to provide a framework for the proper management of public money and public property. This Act contains rules about how public money and property are to be dealt with.

34 Other FM laws are: Commonwealth Authorities and Companies Act 1997 and Regulations 1997 (CACA); Finance Minister's Orders 2006 (FMO); and Commonwealth Authorities and Companies (Report of Operations) Orders 2005; Schedule 1 to the Orders (FMOs 2006) – Financial Reporting requirements; Policy to the FMOs, including PRIMA; Finance circulars; Guidance to the FMOs, including Finance briefs, Estimates memoranda and Financial management guidance; and PRIMA Illustrative financial statements.

matters to the Minister for Finance, who delegates power to an agency CE, who further delegates powers to the CFO and other members of an agency. An agency may delegate its financial powers in the manner which suits its method of working. Financial delegations to the CFO would usually cover the aspects of financial management such as custody of public money, accounting and payments, entering into contracts, investments and audit.

The job description of the CFO is detailed and enunciates the duties and responsibilities of this important position. There may be some small variations in this across the departments as per the needs, however, largely they would be the same. The CFO is directly accountable and reports to the CE; however, administratively the CFO in some cases could be answerable to the CE through another authority.

CFOs are meant to provide financial inputs to the officials of the department through the CE. Usually, the CFO would be a member of any departments' Board, which comprises of their senior most members of different streams. The rules state that different financial reports are to be provided by the finance wing. In case there are issues, they must be sorted out among the different functionaries. The reports for external agencies are to be examined by the Corporate Services wing for quality. All the responsibility of the department would remain with the CE, even for financial matters.

An Audit Committee is a prerequisite for all the agencies. There are independent members on this committee apart from internal members. The Audit Committee performs multifarious functions. These include advising the CE on the financial statements, being the interface for audits conducted by the Auditor General or by internal auditors, reviewing these audit reports, identifying good practices from these reports and advising the CE on issues of importance that may emerge from various audit reports.

Technical competence of the CFO is highly desirable, which follows from the need for the CFO to be a qualified professional. Usually the CFO is part of a professional body too. The CFO must have deep knowledge about the work that mainly comes from sound work experience. The legislations and the framework in which it fits must be fully known to the CFO to make a significant impact. The ability to solve complex financial issues is a must for the CFO, as is the ability to merge with the senior management and be able to give them the requisite financial inputs.

CFOs are selected after due process is followed and posts are advertised. Merit prevails for selection of the best candidate, which is done by the agency after duly following the policies of recruitment as laid down by the Public Service Act 1999[35].

Career planning is mostly dependent on the individual. Every agency discusses career options with all staff. CFOs can move both laterally and vertically. The decision is of the CFOs, whichever way they wish to manage their careers.

A formal networking group of CFOs has been created, backed by Finance. It has monthly meetings and many issues are taken up here which may include staffing, preparing financial statements, audit issues and some legal matters. However, it is seen that the informal network is much more effective.

Review of international best practices and propositions for defence

Immense pressure on resources in all countries has led to tighter financial management everywhere. As may be seen from the section above, the CFO/FD/Financial Advisor has been central to these changes in financial management. A review of the best practices of different countries has brought out the following propositions for defence [36]:

1. Remodelling the role of IFA

As the role of the Finance Officer has evolved in the Indian context, it is clear that the Finance Officers are meant to facilitate the achievement and furtherance of the approved goals of the ministry, which is just as

[35] https://www.legislation.gov.au/Details/C2013C00310 (Accessed November 14, 2019)

[36] Discussion with senior officers in the Finance wing and inputs from Service officers who regularly interact with Finance, forms the basis of this section

true of the Ministry of Defence. All IFAs are expected to ensure value for money; the stated goals must therefore be achieved at a minimum cost to the exchequer. However, the GFR and DFPR also specify that the Secretary is the Chief Accounting Authority; it is he/she who exercises the delegated powers and consequently bears the responsibility for the results. This is similar to the US and the UK.

In India, the IFA is meant to advise the Executive on all matters having a financial bearing and while the Executive is empowered to reject the advice of the IFA if he/she considers it necessary in the overall interest, it is only rarely that this option is exercised. A change in mindset is required in India, where Finance may be seen as another vertical in the organisation, similar to the perception abroad. In those countries, finance is required to give the requisite professional inputs, to which the Executive may or may not agree due to various reasons which may not be related to Finance. The relationship between the Finance and the Executive in India can even become adversarial at times, which is highly undesirable. The Finance Officer and his/ her staff must become trusted members of the Executives' team as they are in other countries and all out efforts must be made by each member of the organisation to be positive and work together as a team to achieve common goals. The organisation can only function effectively when there is an atmosphere of trust; this needs to be continuously and carefully nurtured and reinforced by both sides to achieve a healthy equation.

2. Enacting legislation

Most developed countries have established financial management legislation. This is a far-reaching change that has contributed significantly in shaping the development of financial management. Simultaneously, it has increased the accountability of Accounting Officers and the Financial Advisors. In the US, the role of the CFO was clearly established by the CFO Act 1990. The CFO Act is a federal law which was intended to improve the government's financial management, outlining standards of financial performance and disclosure. The position of CFO was created for each of the federal departments and agencies. In accordance with the Act, each agency or department vests it financial management functions in its CFO. The CFO Act also established the CFO Council consisting of the CFOs and the Deputy CFOs of the largest federal agencies and senior officials of the OMB and Treasury. After this, several other legislations were passed which have impacted the federal financial management, such as the Government Performance and Results Act of 1993, the Government Management Reform Act 1994, the Federal Financial Management Improvement Act 1996 and the Information Technology Management Reform Act 1996. In Australia, the Financial Management and Accountability Act 1997 was enacted in order to improve management of public money. This Act aimed to increase professionalism and delegated substantial powers to the Chief Executives of the different federal agencies, who further delegated powers to the Chief Financial Officers. In South Africa, Public Finance and Management Act[37] regulates the management of finances in the national and provincial government. It sets out the procedures for efficient management of all revenue, expenditure, assets and liabilities.

Apart from legislation, many countries have developed detailed guidelines on the role of the Financial Advisor and the functions required to be performed by the Finance Division. These include the traditional areas of finance as well as the emerging areas in finance. The UK has issued detailed guidelines for CFOs and financial management, which are regularly kept updated for the use by practitioners.

In India, the Finance Officers draw their authority from executive instructions. The enactment of legislation in India along similar lines would lead to streamlining and encouraging professionalism in all ministries, more so in a complex area such as defence with its multifarious and voluminous expenditures. The functions, duties and responsibilities of Financial Advisors down the line would be clearly defined. This would lend authority credence to the activities of the Finance Officer as it would carry the force of law. It would also go a long way in ensuring accountability. Compliance with legislation would improve financial management, reporting, performance evaluation, administrative controls, improve focus on personnel needs, develop a horizon for further improvement of systems and reduce cost of their

[37] Provincialgovernment.co.za (Accessed December 25, 2019)

implementation. This would eventually promote strategic planning and enhance security.

3. Evaluating and reviewing financial management systems

Many countries are making efforts to upgrade methodologies of evaluating the efficiency of government departments. This involves moving from control of transactions to achieving the objectives of the programmes. For example, the US has a balanced scorecard method of evaluation. Such a system of evaluation directly impacts the functioning of the financial advisor, as he/she is the main functionary advising the head of department in achieving better financial management. A balanced scorecard is a management performance metric used to identify and improve various internal functions and their resulting external outcomes. Balanced scorecards are used to measure and provide feedback to organizations.[38]

Countries such as the UK periodically review the financial management systems of their government departments. The suggestions for improvement are fed into whole of government initiatives to improve core financial management competencies. These initiatives increase the responsibility of the financial advisors to improve upon the skills in enhancing overall performance.

In India, such methods of evaluation and feedback could be used to advantage in defence. A periodic assessment of the IFA system by professional means would provide valuable feedback for improved policy decisions. Professional accountancy/finance organisations could have a dialogue with the government to suggest possible improvements and effectiveness.[39] Factors hindering performance could be identified and eliminated or reduced. Learning and growth of Financial Advisors

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38 https://www.investopedia.com/terms/b/balancedscorecard.asp (Accessed December 25, 2019)

39 http://www.capa.com.my/wp-content/uploads/2017/02/CAPA_PFM_8KeyElements_2013_FINAL_SP.pdf(Accessed December 25, 2019)

can be tracked and measured. Gaps, delays and bottlenecks in smooth flow of work can be identified so that they are effectively tackled. Perspectives from the Services can be fed into the improvement cycle. Financial data can be utilised to get indicators for improving financial performance of various sub- organisations within defence.

4. Professionalism for the post of Financial Advisor/CFO

In mostly all countries, there is a movement towards greater professionalism for the post of the Financial Advisor. The effort is to attract the best talent either from the public sector or the private sector. All developed countries such as the UK, USA, Canada and Australia require their financial advisors to be qualified professionals who are experienced in financial management. While the mode of recruitment may be different in these countries, the net is cast wide and the best talent is picked up for this crucial position. Such senior management recruits are members of professional bodies in advanced countries and continue to develop professionally while they are on their post. The tenure of these professionals is also quite stable. The best talent must be picked up for these positions, considering the fact that these professionals handle the core finances of the organization on which the very foundation of the organization rests.

In India, a move has been made in this direction very recently. For the first time, UPSC (Union Public Service Commission) appointed nine private sector specialists as joint secretaries in central ministries. While these appointments were made for departments other than defence, it did include several key ministries. ''Niti Aayog had in a report highlighted that it was essential that specialists be inducted into the system through lateral entry on fixed-term contract.''[40] This 'Lateral Entry Mode' can be read as an intent of the government to bring fresh talent into the bureaucracy from the private sector. The lateral entry mode gives an opportunity to private sector specialists to join a government department and bring newer perspectives to long standing problems.

[40] www.dailyexelsior.com (Accessed December 25, 2019)

Perhaps a thought could be given to inducting finance professionals as Financial Advisors in our country, after the system of lateral entry has stabilised. Eventually, this may include the important portfolio of defence, where there is a strong case for professionalism.

5. Intensifying training – High priority is accorded by many governments to developing strong financial management skills. Therefore, developed countries have evolved methods to assess training needs, regular in-service training and continued professional training of all finance personnel, which includes the head of the finance wing. Apart from the training which the government identifies, the CFOs have to keep pace with newer developments due to their professional associations. In the US, the CFO Council plans the training of the CFOs. In the UK, the National Careers Service provides information, advice and guidance to help make decisions on learning and work.[41] Several government websites share financial information to upgrade the knowledge of the finance staff. In Australia, websites provide e-learning on Central Budget Management System, Cash Management and Commonwealth Resource Management framework. These trainings are very important so that all levels in the finance division are fully conversant with the new streams of work within Finance.

In India, deeper focus on training would be very useful in the area of defence. The existing human resource challenge arises from the shift in global trends and the expanding role of defence. Greater and more effective application of commercial skills are also required for officers dealing with finance, especially with the entry of private sector in the defence industry. The range of activities for Financial Advisors has become far wider and is likely to increase. Apart from financial management and project management, practitioners would need to be equipped with a sound knowledge base in defence industrial policies, PPP, JVs and FDI; commercial aspects such as international trade, outsourcing and negotiation strategies ; legal aspects such as contract law, licensing, transfer of technology, and inter-governmental agreements; economic aspects such as state of the global economy,

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[41] www.visionuk.org.uk (Accessed December 25, 2019)

export control regimes and banking arrangements . At present, both Service officers and officers from the finance wing are posted to projects which may be at different stages of execution and the officers commonly learn on the job. However, finance requires specialised nature of skills in defence since there are large volumes of expenditure involved. Defence finance capsules need to be included in training programmes for future leadership in existing war colleges like Defence Services Staff College (DSSC) and the National Defence College (NDC). Thus, an interdisciplinary body of knowledge needs to be developed and disseminated in a structured fashion to hone the professional skills of the officers as well as staff to meet future challenges.

Conclusion

The CFO/FA is seen to be playing a key role in strong financial management in all developed countries in government sector. The role of CFO/FA has, in fact, increased over the years as a custodian of public finances and an important functionary of the management team, giving relevant financial inputs for strategic decisions. Indicators can be taken from experiences of other countries, as detailed above, which may assist in further refining the role of the Financial Advisors in defence in our country. Financial Advisors at all levels in defence need to be excellent managers and leaders, who understand the policies and programmes of the concerned organisation. Their role in supporting the heads of the entity in fulfilling their financial responsibilities is crucial for the success of the organisation. The goal, as always, would be to enhance military capability to respond to an ever widening range of scenarios, by maximising the value of money available.

(*An abridged version of this chapter has appeared in Journal of Defence Studies, JDS, Vol. 14, Nos 1-2, January-June 2020)*

Chapter 3

Role of Chief Financial Officer in Private Sector and IFA: A Comparison

"People used to think the CFO was there to tell you there isn't enough budget when you needed something or to simply report financial results after the fact. Today's CFOs must break away from the number-cruncher stereotype and think of themselves as more of a strategic player in the company. CFOs today need to be creative, understand best practices, and know how to create more value for the company. There will always be a need for someone to balance the books, crunch the numbers, and perform critical routine tasks but the CFO role is much more dynamic today." (Bill Tobia, LLR Partners' Managing Director of Strategic Finance)

The Changing Role of the Chief Financial Officer

The Chief Financial Officer (CFO) is a senior executive of a company who is responsible for managing the company's finances. The responsibilities include financial planning, financial reporting, tracking cash flow, record-keeping and management of financial risks. The CFO reports to the Chief Executive Officer (CEO) and has a seat on the Board. The CFO heads the finance unit and is also the chief financial spokesperson for the organisation. The CFO assists the chief operating officer (COO) on strategic matters relating to budget management, forecasting needs, cost–benefit analysis and sources of new funding. The CFO is a part of the senior management and is major contributor in the success of a company. The CFO may be seen as the topmost position in the financial industry, and in industries apart from finance, it could be seen as second or third in priority. It is possible for a CFO to eventually become the CEO of a company.

In a manner which is reminiscent of the evolution of the Integrated Financial Advisor, the role of the CFO[42] has evolved too. Here the evolution has been from producing and analysing financial statements to that of a leader and a strategic planner. It has changed from ensuring compliance and quality control to business planning and process changes. This change came about because the need for accounting skills in performing the role of a CFO diminished after the computerisation of the accounting function. Nowadays, the CFO must be able to apply critical thinking skills, along with financial acumen, to the long term goals of an organisation. It is no longer enough to report the numbers and manage the finance function, and being reactive to events as they unfold. In today's fast paced environment, the CFO has to be a strategist to the CEO. He/she has to be a leader implementing the strategies of the company and play a vital role in influencing formulation of company strategy. It is therefore no longer sufficient for a CFO to sit back and analyse the efforts of others. The chief financial officer of today has to take ownership of the financial results of the organisation. He/she should be able to provide leadership to other senior management team members, including the CEO. The CFO is, therefore, a team leader to other employees, both inside and outside of the finance function. He/she is responsible for getting the highest result from their team. The task of the CFO is to bring together a diverse group of talented individuals to achieve superior financial performance. The CFO's role becomes that of the "face" of the company's sustainability to customers, bankers and vendors. The financial viability of the company is vouched for by the CFO.[43]

Thus, the role of the CFO appears to have changed in many ways, some of which could be as follows:

- Originally, the CFOs role was limited to making financial reports, ensuring compliance with rules and regulations and maintenance books/records.

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[42] https://www.investopedia.com/terms/c/cfo.asp (Accessed December 5, 2019)

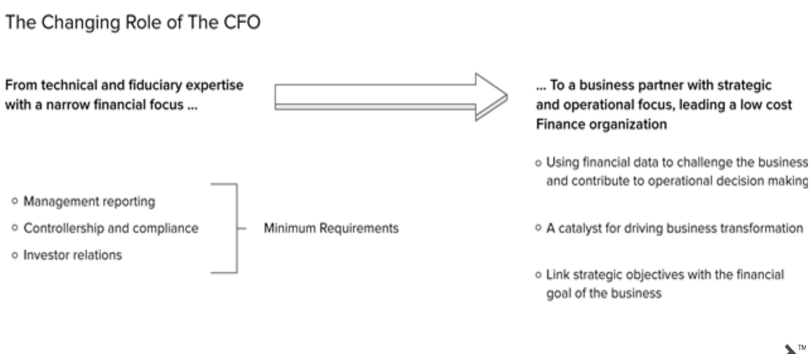
[43] https://strategiccfo.com/the-role-of-the-cfo-chief-financial-officer/ (Accessed December 5, 2019)

- But in today's environment, the CFO becomes a different entity who has to diligently apply himself to the different facets of finance in the company to achieve greater heights. This requires a deeper understanding of finance and also of the environment in which a company functions.

- It is not to say that the original role has disappeared; rather, the new functions are added onto the old ones.

Therefore, the expectations from CFOs have greatly increased in quantity and in quality. From having merely a support function, the role of the CFO has evolved to that of being a strategic planner for the entire company. The need of the hour is to be able to analyse and use financial data relevant to a particular decision, which the company needs to take, and to contribute to operational decision making and linked strategy. The skills and understandings required of a CFO are entirely different from the past where merely accounting skills were required of a CFO. In today's context, CFOs become a business partner along with the CEO, giving him/her the requisite financial inputs to be able to take major business decisions.

"The key responsibilities of a pioneering CFO can be focused on the following three key financial fields:



Source: Boyden Global Executive Search

Managerial finance

(i) Understanding and using crucial financial frameworks and tools in the modern business environment

(ii) Creating accurate forecasts and budgets – to optimise business operations and profitability

(iii) Making informed decisions with financial insights and analytical techniques

Financial corporate strategy

(i) Understanding how strategies like blockchain will affect the future of business and organisation

(ii) Pursuing the ability to make better strategic business decisions by utilising a blockchain strategic framework

Financial innovation

(i) Displaying the expertise to draft, strategise and develop fintech innovations using appropriate tools and techniques

(ii) Acquiring a knowledge of the future of money, markets and transactions, and possible future trends in fintech, regtech and proptech[44]

Adoption of Best Practices of CFOs

As has been brought out in the preceding paragraphs, the expectations from a CFO is changing. Important skills and competencies that would be required of a CFO in order to fulfil their duty in today's environment is quite similar to the skill sets expected of the Integrated Financial

44 https://www.getsmarter.com/blog/career-advice/become-chief-financial-officer-cfo/ (Accessed December 5, 2019)

Advisors in the government in our country, with special focus on defence. As with the corporate world, the focus is now on leadership and strategic decision making rather than on matters of day-to-day finance. It is still necessary for the CFO to have a sound grounding in accounting skills; however, he must have greater experience of finance and a much larger perspective to be able to deliver in today's environment. It may be seen that the CFO of today requires a certain kind of skillsets, which are found to be similar to the required skills in an IFA. These may be categorized as under:

1. **Leadership** – Both an IFA and a CFO, to be an important and an effective partner in the team, must have leadership and communication skills. They must be able to give relevant advice and must also be able to sound caution wherever required. They must be able to decipher elaborate information and make it easily understandable to take necessary action. It is extremely important to groom talented junior members to develop their skills further too. IFAs and CFOs will be required to pay more attention to the task of preparing junior team members for higher finance functions, to ensure that they can multitask, show financial competence and handle strategy, in order to prepare them for their future in finance.

2. **Operations** – CFOs in the corporate structure are equipped with a sound knowledge of the nature of the business and the environment in which it operates, hence he is able to use this knowledge with a finance perspective to provide an alternative construct to the operations team, in matters where decisions need to be taken. Similarly, an IFA must have an in-depth understanding of the organisation which they are serving, so that they can provide constructive solutions to financial challenges rather than obstruct the decisions which would take the organisation forward. CFOs must navigate complex data and provide analytics and predictive scenarios that lead to action and decision-making. The CFO also has to identify opportunities for growth and profit improvement, through the traditional methods of cost control, and through examples such as product line/regional profitability analysis. The IFAs in defence must have a complete appreciation of the policies and programmes of the organisation and this macro view must

guide their day to day actions. When they are screening expenditure proposals, the larger goals and priorities of the organisation must be factored in, without compromising budgetary integrity. The IFA in defence must be adept at latest with financial management practices and knowledge to face challenges of the future.

3. **Controls** – On the world stage today, it often falls on to the CFO to ensure adequate assessment and mitigation of risk, along with compliance to regulatory or other requirements. They understand risk through commercial as well as financial lens and manage risk as the business executes its strategies. CFOs maintain strong internal controls and financial reporting processes. IFAs must also be fully aware of the global environment and the security scenario prevailing at a given time. Ensuring compliance to global and domestic regulations is an important function of an IFA. Apart from that, as the private sector becomes an important player in defence production, IFAs must be fully informed of the national and international business environment in which they are expected to function.

4. **Strategy** –CFOs are meant to provide improved inputs for evolving better strategy. The CFO plays a role in prioritising and ensuring that a particular strategy is funded. The finance skillset is applicable to building predictive modelling and analysing macroeconomic trends. This further includes communicating the strategy to external stakeholders and investors. IFAs would need to help the executives in evolving strategies for public-private partnerships for future, within the existing regulatory framework. Innovations for attracting funding or raising resources via non-budgetary sources would be the requirements in the times to come. Risk management and risk mitigation strategy would need to be actively pursued in future. Defence organisations undertake numerous projects and such projects carry inherent risks. The past experience of project team members, project experience within the department, and outside experts can be valuable resources for identifying potential risk of a project. Potential risk may emanate from a variety of factors, more important of which could be technical, cost related, schedule, contractual, financial, political,

environmental and those related to personnel .The IFA would be able to contribute significantly if a conscious decision is taken to involve him/her in preparing a strategy to minimise these risks related to the project.

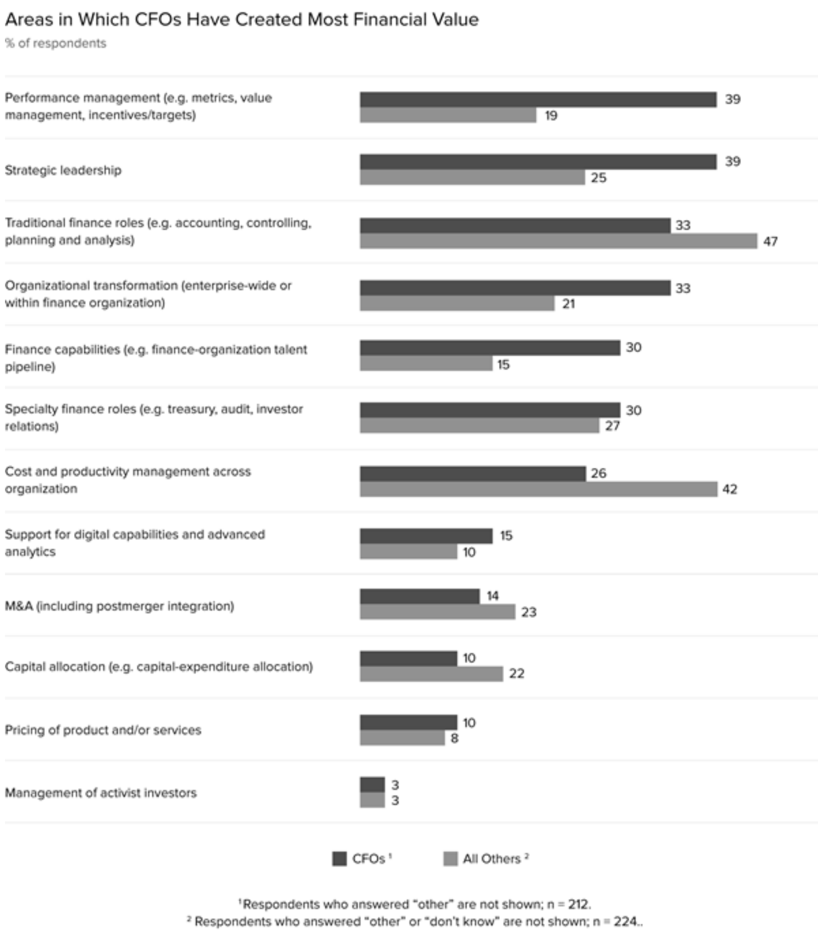
The Four Fundamental Pillars of the Role of the CFO

BENEFICIAL ATTRIBUTES OF CFO/IFA

1. Becoming a valued partner - Behavioural competencies are crucial to the partnership role as a CFO or as an IFA. The individual must earn his/her place in the system. A CFO or an IFA must be a fluent communicator and display excellent leadership qualities. The IFA can similarly become an important player in any organisation if there is mutual trust and IFA is kept informed of the developments in an organisation. Conversely, the IFA must also take keen interest in the issues facing the executives and play a key role in analysing and presenting financial and economic data to strengthen the hands of the executives in fulfilling their responsibilities. IFAs may invariably attend meetings so that they are abreast of developments in the organisation and take up matters where he/she feels decisions could be taken after including the relevant financial input.

2. Finance must be a part of the thought process of the organisation: In a corporate environment, decisions in all the important areas such as manufacturing, operations and commercial are taken keeping in mind the financial aspects. Financial analysis is the key factor that might shape the direction of the company. This is also useful in keeping an open dialogue between all the other functional areas and finance. The other functions become more conscious of the financial implications of their work and the finance side becomes better aware of the various problems encountered during the flow of work. Therefore, simply providing static financial reports does not serve the purpose anymore. The CFO provides an entire scenario to the management by applying his knowledge of finance and translating available data into intelligible trends. IFAs may similarly make the effort to analyse financial and economic data to provide meaningful financial inputs to all areas of an organisation in defence. It is essential for all key decisions in a defence organisation to be backed by substantive financial inputs provided by the IFA. This will also cultivate better relations between executive and finance leading to smoother flow of work.

3. Automation and technology are vital: To be productive, finance needs access to timely and accurate data. This kind of automation in reporting allows more time for forecasting and predictive analysis. It is inevitable that technology will play a greater role for the CFO in future. To be effective, an IFA or a CFO needs to have access to data which is accurate and consistent, and it must be on robust, integrated technology infrastructure. Newer technology such as Artificial Intelligence (AI) is one of the pillars on which the strategy of a business rests because it will give a competitive advantage; consequently, CFOs and IFAs will be at the forefront of the usage of such technology. CFOs would be using AI to improve performance and, on similar lines, IFAs in the defence sector must gear up to include innovative technology, including AI, to match up to the demands of the organisation. The CFO is also central to the usage of big data, and is the key figure to make sense of the large volumes of data which is generated constantly. CFOs have the ability to analyse and give precise interpretation to the voluminous data and guide the management on best possible options in the given scenario. This is where IFAs in defence need to develop expertise and enable their organisations to utilise enormous available data in meaningful ways to further the goals of security. Finance professionals are also responsible for cybersecurity in the corporate sector these days and defence finance professionals must develop deeper understanding of this critical area too. Therefore, IFAs will have to be the torch-bearers in digital technology and must adapt with ease to fresh technological solutions. They must also own and adopt all cloud-based technology as also the implementation of ERP (Enterprise Resource Planning) in the organisation.



Source: McKinsey

Chapter 4

IFA for Defence: The Need of The Hour

"Professional knowledge and professional competence are the main attributes of leadership. Unless you know, and the men you command know that you know your job, you will never be a leader." **(***Field Marshal Sam Manekshaw)*

Background

As discussed in chapter one, after a decision was taken on the departmentalisation of accounts, the scheme of Integrated Financial Advisor was introduced in different departments and ministries of the government of India in the 1970s. The idea was to hasten the process of decision-making and to make sure that every proposal for expenditure was examined by finance before actual sanction. The IFA scheme came into practice in various ministries at separate points in time. It started in the Ministry of Defence in 1983. The notion was to integrate the financial advisors with the concerned department or ministry and they would be tasked with giving advice on the financial aspects of proposals, wherever the financial powers had been delegated. Therefore, the concerned authority would necessarily have to consult their financial advisors when exercising powers delegated to them. In the case of defence, two categories of delegated powers came into force, the first being those which could be used only after consultation with finance and the second were those which could be exercised without financial consultation.

Therefore, while Government of India, Ministry of Finance(defence) letter No.F.21(2)/COORD/74 dated July 10, 1975 prescribed the role of IFAs in the exercise of the delegated financial powers, GOI letter No.10(3)-E (Coord) /83 dated July 16, 1983 introduced the Integrated

Financial Advise System in the department of defence. Cases which fell within the sphere of delegated powers in the ministry had to be exercised after consultation with FA (DS) or his officers. The Secretary was, however, empowered to over-rule the FA (DS) by means of a written note if there was disagreement, but the FA (DS) could, in such cases, seek the matter to be placed before the *Raksha Mantri*. In cases which fell outside the scope of delegated powers, the FA (DS) and his team functioned as Associate Finance. They were granted access to the Ministry of Finance, which meant to the Finance Minister, through the Secretary (Expenditure). Thus, on issues where FA (DS) held a different view from the administration, he/ she could reach the *Raksha Mantri* on delegated powers and the Finance Minister through Secretary (Expenditure) on matters beyond delegated powers too. In 1992, vide their letter No.48503/st-11/4810-B/D(OS) dated 23.9.92, the Ministry of Defence gave out elaborate instructions on the manner in which the Controllers of Defence Accounts would function as financial advisors to Army authorities.[45]

The Ministry of Defence wanted the idea of "Authority-cum-Responsibility Centres," which was prevalent in the British Army to be adapted for use in our system. As it evolved, this formed the bedrock

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[45] 1) MoD (Fin) letter No.AN-I/1179/1/VI(PC-XXV) dated 17.8.94: IFA cell created in AHQ ;2) Government of India, Min. of Def., New Delhi letter No. 6(1)/97/D (O-I) dt. 08.04.1997: Para 11 of this letter prescribed the role of IFA (Army HQs); 3) GOI, Min. of Def. Letter No. AN/I/1179/1/VI (PC- XXV) dated 17.08.1994: IFA (Army HQ) set up under was to also function as IFA for the MGO's Branch including DGOS and DGEME; 4) MoD letter no 3(7)/93/D(Work) dated 26.8.98 : this letter authorised the role of IFAs in the area of Civil Works proposals; 5) AHQ letter 10074/ IFA/FP 4 dated 16.1.2003: This letter distributes the work between the three IFAs at AHQ as under – a. IFA 1 as IFA Army (O) – MGO Branch & policy issues. b. IFA II as IFA Army (Q) – QMG, E-in-C & AG Branches and DGAFMS. c. IFA III as IFA Army (Misc) – MI Dte, DG RR, ADG IT & all cases pertaining to MH 800: Misc expenditure; 6) MoD (Fin) letter F.15(1)/ C/04(1646) dated 9.12.2004: This letter delegated powers of HODs to IFAs at par with CsDA

of the "New Management Strategy" (NMS) for all the Services. The basic aim of this scheme was to achieve the best value for the moneys spent. It envisaged setting up of centres for authority-cum-responsibility and budget under the Principal Staff Officers (PSOs), an overall decentralisation of several responsibilities such as target setting, planning, financial control and budget formulation, by getting personnel at all level involved in the process. It was through the NMS that there took place a substantial delegation of financial powers and the scheme of IFA got started in Service Headquarters as well as in some lower formations. The revenue budget was, therefore, largely delegated to the Services in the period from 1996 to 2000.

Creation of IFA posts

A Committee on Defence Expenditure was constituted in 1990 to look into the aspect of delegation of financial powers. In their view, considerable powers could be delegated, with certain exceptions such as import of stores, creation of posts and introducing new scales. As per recommendations of this committee, there was a need to create systems and procedures of financial advice, after which more powers could be delegated to the Services. It was in 1991 that a decision was taken by the defence ministry that delegated financial powers must be exercised as per the advice of local financial advisors. This was in pursuance of the recommendations of a subcommittee of the Committee on Defence Expenditure. The 19th Estimates Committee of Parliament was informed that the idea to establish this scheme was under consideration and senior officers of the CGDA[46]'s organisation would be positioned at various levels for the implementation of the

[46] Controller General of Defence Accounts: Defence Accounts Department, with the Controller General of Defence Accounts at its head, functions under the administrative control of the Financial Adviser (Defence Services). The duties of the Defence Accounts Department are broadly financial advice, audit, payment and accounting of all charges pertaining to the Armed Forces

scheme. Accordingly, IFAs were positioned in the Service Headquarters as also Headquarters DGBR[47] in 1994 and 1995.[48]

NMS and beginning of IFA System in the Army[49]

In 1997, the New Financial Management Strategy was started in the MGO's Branch. The idea was to enhance financial performance and control. New Financial Management strategy meant more decentralisation of responsibilities in the financial sphere and higher accountability as well. An Authority-cum-Responsibility and Budget Centre (ARB) at MGO's [50] branch was created under the aegis of the MGO. The MGO was a PSO and was now entrusted to be a high-level budget holder, who was an Authority-cum-Accountability Centre for cost effective management of all equipment related tasks of the Army. The DGO and DGEME[51] were the intermediate budget holders and were entrusted to be Responsibility and Budget Centres for their own directorates. They were to manage the budget and achieve their goals within their budget. Additional DGOs, CODs, Base Workshops etc. were to manage the budget and monitor it on a day to day basis, while keeping in mind their allocations. IFAs at various levels were to render advice to their respective counterparts. Besides, it is important to note that this new financial strategy emphasised the link between the availability of resources and the provisioning and procurement as per availability of resources.

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47 Director General Border Roads: The Executive head of the Border Roads Organisation. The Border Roads Organisation (BRO) develops and maintains road networks in India's border areas and friendly neighboring countries.

48 i. MOD F No. 665/Addl.FA(C) dated 4/4/94 - IFA Air HQrs ii. 840/Addl FA (J)/94 dated 22/3/94 - IFA Naval HQrs iii. AN-I/1179/1/VKPC-XXV dated 17/8/94 - IFA Army HQrs iv. BRDB No.F 731/C18 BBDB/BWA/ 94/Delegation dated 23.3.95 - IFA DGBR v. MOD No. Air HQ/61279/35/ 4/LR/1215/DO-I Air-I dated 26/9/95 Maintenance - IFA HQrs Command, IAF

49 *IFA Army Manual*,2007, Controller General of Defence Accounts, New Delhi

50 Master General Ordnance

51 Director General of the Electrical and Mechanical Corps

Beginning of IFA system in Air Force[52]

It was in 1994 that an IFA could be placed at Air Headquarters. Further enhancement of delegated powers had taken place to CFAs at Command Level too and further down below. So IFAs had to be placed alongside these authorities. For a start, IFA of SAG level was placed at Air Headquarters alone. But later when powers under revenue heads were delegated to the Commands, Wings and EDs/BRDs, and after the issue of GOI MOD letter no 10(3)/02-D(Air-II) dated April 1, 2002, several fresh IFA positions came into existence at lower levels. At HQ Maintenance Command, where earlier IFA cover was being provided by JCDA(AF), a SAG level dedicated IFA was posted. Apart from this, dedicated IFAs were positioned at many EDs/BRDs. Besides these dedicated IFAs, there were IFAs particularly at Operational Commands and Wings, who were discharging other functions also.[53]

Beginning of IFA system at Naval Headquarters [54]

IFA System in the Navy was introduced in 1994[55] with the following charter of duties of the IFA to the Naval Headquarters: -

(i) "The IFA shall render advice on all financial matters which fall within the competence of various authorities at NHQ within the delegated financial powers. The IFA will be consulted in respect of specific expenditure proposals under the delegated powers and the said powers will be exercised with his concurrence. In case of difference of opinion, the Vice Chief of Naval Staff will refer the matter to Financial Advisor (Defence Services), FA (DS), in writing."[56]

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52 *IFA Air Force Manual*, 2008, Controller General of Defence Accounts, New Delhi

53 www.cgda.nic.in (Accessed December 20,2019)

54 *IFA Navy Manual*, 2008, Controller General of Defence Accounts, New Delhi

55 GOI, MOD(Finance) letter No. 840/Addl.FA(J)/94 dated March 22, 1994

56 www.nadfm.nic.in (Accessed December 20,2019)

(ii) "He or his representative will participate in various TPCs/PNCs held at Naval Headquarters.

(iii) He will assist Naval Headquarters in formulation of budget at different stages and monitoring of expenditure against the budget allotment.

(iv) He will assist the Naval Headquarters in implementation of Authority-cum-Responsibility centre concept (New Management Strategy).

(v) He will monitor the implementation of sanctions, commitments and liabilities for taking effective measures to achieve cost effectiveness and better resource planning. He will maintain an adequate information system in this regard.

(vi) He will assist the NHQ in rationalisation of maintenance expenditure and inventory management procedures.

(vii) He will monitor the processing of draft audit paras, audit paras, internal audit objections of CDA (Navy) etc. to ensure adequate attention and speedy remedial measures.

(viii) He will maintain continuous liaison with the executive and financial authorities at different levels as also the MOD and MOD (F) for ensuring effective financial management in the Navy.

(ix) Any other duties relating to finance/accounts assigned to him by FA (DS), CGDA and VCNS."[57]

Delegation of powers in 2002

A Group of Ministers was tasked with examining the national security scenario and make its recommendations in the post-Kargil period[58].The

57 www.cdajabalpur.nic.in (Accessed December 20, 2019)

58 The Kargil Review Committee (KRC) was set up by the Government of India on 29 July 1999, three days after the Kargil War came to an end. The committee was set up "to examine the sequence of events and make recommendations for the future,". The report was completed on December

recommendations of the Task Force on Higher Defence Management formed the basis of substantial delegation of administrative and financial powers to the Services. This delegation was made to the Commands and to the formations down to the Unit commanders. But prior to this delegation the system of Financial Advice was to be expanded in order to provide necessary checks and balances and so that the powers could be exercised with proper financial advice at all levels. The post of Principal IFA was set up at CGDAs office for proper coordination and many IFAs were posted at various levels.

Committee on Delegation of Financial Powers

The V. K. Misra Committee on delegation of financial powers submitted its report in June 2006 and this was approved by Hon'ble *Raksha Mantri*.[59] This report "provided for the involvement of IFAs in planning, budgeting, data-base management and contract Management activities, as under –

a. Planning – Priority Procurement Plans will be made both at Headquarters level and Command level in respect of various budget holders in consultation with IFAs.

b. Budgeting – The Budget allocation at various stages against Sub Heads and detailed heads will be notified only after consultation with IFAs.

c. Data-base Management – IFAs will become part of networking of data-base along with CFAs and MoD/MoD (Fin).

d. Contract Management – IFA is to be involved in Contract Monitoring of Capital cases along with Service Headquarters."[60]

15, 1999 and tabled in the Parliament of India on February 23, 2000. Accordingly, as per the KRCs recommendations, a Group of Ministers (GoM) and task forces were set up to do a complete review of the Indian security system.

59 Report of the Committee on Review of Financial Powers delegated to the Services, Ministry of Defence Finance, June 2006.

60 www.cdajabalpur.nic.in (Accessed December 20,2019)

DELEGATION OF POWERS IN 2006

A fresh delegation of financial powers was approved in 2006.[61] [62] This included some clauses which had not existed earlier like the delegation with regard to capital procurements and a Priority Procurement Plan. IFAs were now expected to take a proactive part in important activities like planning, budget preparation and monitoring of contracts.

IFA or representative was now to be a part of TPCs (Tender Purchase Committee) as finance member; later the IFA was mandated to give concurrence to the recommendations of the committee before finalisation of the case. The CFA could only exercise his powers with the prior consultation of the IFA. Proper briefing papers were to be sent to the IFA prior to the meeting and his/her concurrence in writing was mandatory. It was essential that the administrative authorities made available anything which the IFA asked for which he/she thought was pertinent to the case at hand, which may be any data or documents. If the CFA had to over-rule the IFA in writing, it would be the prerogative of the IFA to submit the issue to the next higher IFA for discussion with the next higher CFA or for not doing so, as it was thought fit. IFA was necessarily to be consulted for the area of Post Contract Management. It was clear that enhanced administrative powers to the three Services came with the rider that it was necessary to get the views of the IFA whenever any financial aspect was there.

DELEGATION OF POWERS IN 2015

Delegation of powers[63] in 2015[64] once again flowed from the need to usher in greater efficiency. The matter of delegation of financial and

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61 MoD letter no A/89591/FP-1/2006/D(GS-1) dated 26.7.2006

62 MoD letter MoD/IC/1027/32/AS(J)/6864/2006 dated 1.9.2006

63 https://echs.gov.in/img/Policy/PROC&FUND/Accts/DELEGATION%20OF%20FINANCIAL%20POWERS.pdf (Accessed December 10,2019)

64 Delegation of Financial Powers to Defence Services(Accessed December 10 ,2019)

administrative powers was brought to the table after about ten years. The delegation made this time also included a portion of risk management and of internal audit, while enhancing oversight to be able to give an overall view to the highest authorities.

A four-part document was created, wherein the oversight mechanism was given by the Audit Advisory Committee (AAC) of MoD. This was to report to the *Raksha Mantri*, through the Defence Secretary. This constituted of the representatives of all its stakeholders, which was inclusive of the three Services. The AAC was tasked with drawing up the Annual Audit Plan by the 15th of February of each year. Risk Management was to be evaluated as per a matrix given in the document. The AAC was responsible for evaluation of risks and was to re–evaluate the profiling every three years. Risk Management was to be taken up according to the Comptroller and Auditor General's manuals. The Controller General of Defence Accounts (CGDA) was tasked with creating Internal Audit teams to evaluate the sufficiency of various internal checks, procedures and controls. The Controllers of Defence Accounts and Principal Controllers of Defence Accounts were to look at micro issues to raise assurance levels.

The Delegation of Financial Powers 2015 accepted the shortcomings in the IFA system, especially the problem of inadequate staff at various levels. The instructions gave the concept of a vertical integration of IFAs with MoD (Finance). Apart from this, there was e-concurrence, institutionalisation and involvement of IFAs at planning and review in provisioning up to the HQ Command level. This system was to be eventually extended downwards. The Annual Appraisal of the IFAs was given to concerned CFAs (reporting).

The guidelines of 2015 contained details about e-procurement. Applying this e- procurement meant having a detailed database of vendors, prices and market intelligence. Each of the Service Headquarters were to have an Annual Revenue Procurement Plan (ARPP). Along with this, IT-based Financial and Budgetary management system was to be created which would give information in real time on all budget relayed matters. Delegated powers were given out in great detail in specific schedules.

Expanding the Knowledge Base for IFAs

The nature of the work requires defence IFAs to have a sound knowledge base in every area related to their work. It is important for them to take decisions keeping in view the larger context in which they are functioning. Therefore, the following suggestions are made for them to broad base their understanding of the systems and environment in which they are expected to deliver.

1. **Constitution of India:-** These Articles of Constitution of India would be relevant for government purchase system – A) Article 14 – The State shall not deny to any person equality before the law. B) Article 19 (1) (g) – All citizens shall have the right to practice any profession or to carry on any occupation, trade or business. C) Article 298 – Government of India may make contract with private parties. D) Article 299 – Government Contracts are to be executed by persons authorised by President of India. All such contracts will be executed by such persons on behalf of President of India. E) Article 300 – Government of India may sue or may be sued.

2. **Legal Provisions for contracts in government:-** The legal provisions in contractual matters flow from "Article 299 of the Constitution, which states that contracts legally binding on the Government have to be executed in writing by officers who are specifically authorised to do so. Further, the Indian Contract Act, 1872 and the Sale of Goods Act, 1930 are the major legislations which govern contracts for sale/ purchase of goods in India."[65] At present, there is no law exclusively governing public procurement of goods in India. The term Public Procurement Law relates to those legal provisions which regulate the purchasing and the procuring of services and goods by the government, its ministries, departments, public enterprises, authorities and its institutions. The Public Procurement Bill 2012 was introduced in the Parliament of India and was further modified in 2015 for the Legislature's approval. It seeks to regulate public procurement to ensure

[65] www.cdajabalpur.nic.in (Accessed December 20, 2019)

transparency, accountability and probity in the process, ensure the fair and equitable treatment of bidders, promote competition, enhance efficiency and economy and maintain integrity and public confidence in the public procurement process. The Government also issued Public Procurement (Preference to Make in India), Order 2017 as a part of the policy of the Government of India to encourage 'Make in India' and promote manufacturing and production of goods and services in India with a view to enhance income and employment. As per this order, purchase preference shall be given to local suppliers in all procurements undertaken by procuring entities in the manner specified. As per the order the minimum local content shall ordinarily be 50 per cent.

3. **Rules and directives:-** Since there is still no comprehensive law on the subject of public procurement in India, in the absence of any national legislation, prominence is given to rules, procedures and manuals that govern the process of procurement. These are available in:

   A) General Financial Rules (GFR), 2005: GFR provides a broad legal framework and contains the general rules on procurement applicable to all Ministries and Department. "GFR has been issued by Department of Expenditure, Ministry of Finance, under the powers of delegated legislation. It deals with general principles of government financial management which are to be followed by all organisations of government of India when dealing with financial matters. IFAs must be very familiar with this, specially areas such as general system of financial management, budget formulation and expenditure monitoring, works cases, procurement of goods and services, inventory management, contract management" [66].[67]

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[66] www.cdajabalpur.nic.in (Accessed December 20, 2019)

[67] (1) Every authority delegated with the financial powers of procuring goods in public interest shall have the responsibility and accountability to bring efficiency, economy, transparency in matters relating to public procurement and for fair and equitable treatment of suppliers and promotion of

B) Delegation of Financial Powers Rules (DFPR): The DFPR are rules reflecting the principles of the GFR giving the Central Government, through the Ministry of Finance (MoF), the power to sanction expenditure for the purchase and execution of contracts. Delegation of Financial Powers Rules, Appendix 2, "notified by Ministry of Finance, gives the overall expanse of duties and responsibilities of the Integrated Financial Advisors in ministries or departments. As per this, IFA in ministries or departments will overall be in charge of Budget and Accounts in addition to the Internal Finance section. It will be their duty:

a. 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.

b. To scrutinise budget proposals thoroughly, before sending them to Ministry of Finance.

c. To see that complete departmental accounts are maintained in accordance with the requirements under GFR. It should, in particular, be ensured that the ministry not only maintains

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competition in public procurement. (2) The procedure to be followed in making public procurement must conform to the following yardsticks: - (a) the specifications in terms of quality, type etc., as also quantity of goods to be procured, should be clearly spelt out keeping in view the specific needs of the procuring organisations. The specifications so worked out should meet the basic needs of the organisation without including superfluous and non-essential features, which may result in unwarranted expenditure. Care should also be taken to avoid purchasing quantities in excess of requirement to avoid inventory carrying costs; (b) offers should be invited following a fair, transparent and reasonable procedure; (c) the procuring authority should be satisfied that the selected offer adequately meets the requirement in all respects; (d) the procuring authority should satisfy itself that the price of the selected offer is reasonable and consistent with the quality required; (e) at each stage of procurement the concerned procuring authority must place on record, in precise terms, the considerations which weighed with it while taking the procurement decision.

accounts 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.

d. 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.

e. To ensure the proper maintenance of the Register of Liabilities and commitments as required under the GFRs to facilitate realistic preparation of budget estimates, watching of book debits and timely surrender of anticipated savings.

f. To screen the proposals for supplementary demands for grants"[68]

g. To formulate the foreign exchange budget for the Ministry and to process individual cases for release of foreign exchange in accordance with the instructions issued by Department of Economic Affairs from time to time.

h. To advise the Administrative Ministry on all matters falling within the field of delegated powers. This includes all powers other than those devolving a ministry in its capacity as Head of Office. It has to be ensured by IFA that the sanction issued by Administrative Ministry in exercise of delegated powers clearly indicates that they issue after consultation with IFA.

C) Appendix B of Defence Services Estimates Vol-I: This is issued by the Ministry of Defence. While it explains the organisation

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[68] www.cdajabalpur.nic.in (Accessed December 20,2019)

and functions of the Ministry of Defence (finance) and Defence Accounts Department, it gives an overview regarding the scope of work of IFAs: -

a. The financial control by IFA is really a careful and intelligent scrutiny of all proposals involving expenditure from the public funds, the objective being the safeguarding of economy, efficiency and propriety in public finance.

b. Before according financial concurrence to any proposal involving fresh expenditure, it is the duty of the Finance Officer to seek justification for the proposal.

c. IFA may even challenge the necessity for spending so much money or on such a scale to secure a given object.

d. IFA may ask i. whether the proposal is really necessary; ii. whether the same results could not be obtained otherwise with greater economy; iii. whether the expenditure involved is justified in the circumstances; iv. whether individual items are in furtherance of the general Government Policy,

e. IFA is to see whether the canons of financial propriety have been observed – (i) Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money. (ii) No authority should exercise its power of sanctioning expenditure to pass an order which will be indirectly or directly to its own advantage. (iii) The amount of allowances such as travelling allowances, granted to meet expenditure of a particular type, should be so regulated that an allowance is not on the whole a source of profit to the recipient. (iv) Government revenues should not be utilised for the benefit of a particular person or section of the community unless the amount of expenditure involved is insignificant, or a claim for the amount could be enforced in a court of law or the expenditure is in pursuance of a recognised policy or custom.

f. In fact, IFA can ask every question that might be expected from an intelligent taxpayer bent on getting the best value for his money.

g. The rules provide that no expenditure which has not been provided for in the Budget or which having been provided, has not been sanctioned shall be authorised without the concurrence of the Secretary (Defence/ Finance) or representative. The strict observance of this rule is automatically ensured as the Controllers of Defence Accounts will not make any disbursement in respect of charges not covered by regulations or government orders.

h. The according of financial concurrence by the Finance Division of Ministry of Defence falls generally in three more or less defined stages – i. The examination of the proposal on its merits. ii. The assessment of the financial effect. iii. If the proposal is accepted, the careful examination and vetting of the final orders before issue.

i. Sometimes two or more of these stages are combined, but all proposals having a financial bearing inevitably follow through this process. This procedure ensures not only close and adequate control by finance, but also enables them to give constructive suggestions and advice from the financial point of view at a fairly early stage of the consideration of a proposal.

D) CPPP (Central Public Procurement Portal of Government of India): "The primary objective of this portal is to provide a single point access to the information on procurements made across various Ministries/Departments and all the organisations under them"[69].

E) Government orders on purchase or price preference to Central Public Sector Undertakings and guidelines issued from time to time with the aim of fostering transparency and integrity in

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69 www.eprocure.gov.in (Accessed Devember 20,2019)

public sector procurement by the Directorate General of Supplies and Disposals (DGS&D)

F) The instructions and office memorandums of the Ministry of Finance (MoF): Together, these provide the regulatory framework for the public procurement system in India.

4. **Defence Procurement Manual (DPM) and Defence Procurement Procedures (DPP):-** These defined procedures seek to balance the competing requirements of expeditious procurement and development of an indigenous defence industry through decision-making and simplification of contractual procedures.

These manuals bring out the role of IFA in procurement activities. IFA's role in procurement cycle is essential in the following stages:

(a) Acceptance of Necessity stage (necessity angle clearance, vetting of quantities, competence of CFA, funds' availability, mode of tendering, vetting of tender enquiry, amendments to tender enquiry / extension of tender opening date)

(b) Tendering stage (procedural aspects related to opening of tenders, vetting of CST, ranking of L-1, holding negotiations, cost analysis of quoted rates, creation and utilisation of data-base and market intelligence)

(c) Expenditure sanction stage (expenditure angle concurrence decision on re-tender, apportionment of quantity, acceptance of cost over estimates, type of contracts for applying in a particular case, vetting of supply order / contract, allotment of U.O. number)

(d) Post contract Management (extension of delivery, imposition / waiver of liquidated damages, extension of letter of credit, amendment of contract, termination of contract, risk and expense purchase, price variation adjustment, exchange rate variation re-imbursement)".[70]

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70 www.cdajbalpur.nic.in (Accessed December 20, 2019)

5. **Important judgments on government contracts:-** Important judgments of the Supreme Court and various High Courts on matters which are related to Government Contracts would increase the knowledge base of IFAs. Apart from exposition on the way that government contracts should be dealt with, many judgments have also covered topics such as 'promissory estoppel', 'executive necessity' and 'legitimate expectation'.

6. **Legislation and Acts :-** Acts passed by Parliament which could have an impact on the government procurement system are useful to have an idea of the framework within which the work is done : A) Indian Contract Act 1872 B) Sale of Goods Act 1930; C) Arbitration and Reconciliation Act 1996; D) Goods and Service Tax Act 2017; E)The Patents Act, 1970 & 1999; F) The Negotiable Instruments Act, 1881; G) The Limitation Act, 1963; H) The Contract Labour Act, 1970.

7. **Manual on Policies and Procedures for Purchase of Goods:-** Department of expenditure, ministry of finance, issued this Manual on August 31, 2006. It is primarily based on GFR-2005 and the DGS&D Manual. It contains generic guidelines such as the fundamental policies of government purchase, basic principles for entering into contracts, post-contract management issues. It contains basic objectives of government procurement which are as follows–

    i) Transparency, Competition, Fairness and Elimination of Arbitrariness: Public buying should be conducted in a transparent manner to bring competition, fairness and elimination of arbitrariness in the system. This will enable the prospective tenderers to formulate competitive tenders with confidence.

    The following are some important measures to achieve the same and, thus, secure best value for money: (1) The text of the tender document should be user-friendly, self-contained, comprehensive, unambiguous, and relevant to the objective of the purchase. The use of terminology used in common parlance in the industry should be preferred. (2) The specifications of the required goods should be framed giving sufficient details in such a manner that it is neither too elaborately restrictive as to deter potential tenderers or increase the cost of purchase nor too sketchy to leave scope for sub-standard supply. The specifications must meet the essential requirements of the user department. Efforts should also be made to use standard specifications, which are widely known to the industry. (3) The tender document should clearly mention the eligibility criteria to be met by the tenderers such as minimum level of experience, past performance, technical capability, manufacturing facilities, financial position, ownership or any legal restriction etc. (4) Restrictions on who is qualified to tender should conform to extant government policies and be judiciously chosen so as not to stifle competition amongst potential tenderers. (5) The procedure for preparing and submitting the tenders; deadline for submission of tenders; date, time and place of public opening of tenders; requirement of earnest money and performance security; parameters for determining responsiveness of tenders; evaluating and ranking of tenders and criteria for full or partial acceptance of tender and conclusion of contract should be incorporated in the tender enquiry in clear terms. (6) Tenders should be evaluated in terms of the criteria already incorporated in the tender document, based on which tenders have been received. Any new condition, which was not incorporated in the tender document, should not be brought into consideration while evaluating the tenders. (7) Sufficient time should be allowed to the tenderers to prepare and submit their tenders. (8) Suitable provisions should be kept in the tender document allowing the tenderers reasonable opportunity to question the tender conditions, tendering process, and/or rejection of its tender and the settlement of disputes, if any, emanating from the resultant contract. (9) It should be made clear in the tender document that tenderers are not permitted to alter or modify their tenders after expiry of the deadline for receipt of tender till the date of validity of tenders and if they do so, their earnest money will be forfeited. (10) Negotiations with the tenderers must be severely discouraged. However, in exceptional circumstances, where price negotiations are considered unavoidable, the same may be resorted to, but only with the lowest evaluated responsive tenderer, and that too with the approval of the competent authority, after duly recording the reasons for such action. (11) The name of the successful tenderer to whom the supply contract is awarded should be appropriately notified by the purchase organisation for the information of general public, including display at notice board, periodical bulletins, website etc.

ii) "Efficiency, Economy and Accountability: Public procurement procedures must conform to exemplary norms of best practices to ensure efficiency, economy and accountability in the system. To achieve this objective, the following key areas should be taken care of: (1) To reduce delays, each ministry/department should prescribe appropriate time frame for each stage of procurement; delineate the responsibility of different officials and agencies involved in the purchase process and delegate, wherever necessary, appropriate purchase powers to the lower functionaries with due approval of the competent authority. (2) Each ministry/department should ensure conclusion of contract within the original validity of the tenders. Extension of tender validity must be discouraged and resorted to only in absolutely unavoidable, exceptional circumstances with the approval of the competent authority after duly recording the reasons for such extension. (3) The Central Purchase Organisations should bring into the rate contract system more and more common user items, which are frequently needed in bulk by various ministries/departments. The Central Purchase Organisations should also ensure that the rate contracts remain available without any break.

8. **CVC guidelines:-** The Central Vigilance Commission Act empowers CVC to "exercise superintendence over the vigilance administration of various ministries of the Central Government or corporations established by or under any central act, government companies, societies and local authorities owned or controlled by that government'. CVC has been working towards system improvements to encourage transparency and the culture of honesty. In order to achieve this objective, the Commission has

issued a number of letters containing instructions and guidelines. IFAs must ensure that these guidelines are complied with while giving their financial advice.

9. **Latest Government Policies:-** Various government policies operate in a dynamic scenario. They change from time to time depending upon the changing environment and priorities. IFAs have to keep themselves updated on all such policies, which have a bearing on government purchase decisions. These could be: A) Budget – The annual Budget announcements by Central Government invariably have an impact on the various industries, which ultimately gets reflected in pricing of their products. B) Export Import Policy– This policy is relevant to Foreign Purchases. C) GST– The nuances of this policy must be understood. D) Industrial policy- Issues like providing incentives to Small Scale Industries, Purchase Preference to Public Sector etc., are decided by the concerned ministry in consultation with Ministry of Finance, which effect purchase decisions in ministries of Central Government. E) Welfare policy – Orders in this area are issued by Ministry of Personnel and Public Grievances. Some of these decisions like product reservation, purchase preference, price preference, single tender purchase to Kendriya Bhandar / Central Government Co-operative Society also affect Purchase decisions. F) Foreign policy – Government relations with other countries also have a bearing on decision on imports. The issues of sanctions and technology denial are equally important areas of knowledge in understanding the policies of the Government of India. Many of these factors influence the decision-making process in government purchase. G) Defence policy – Government decisions on issues like participation of industry for self-reliance in manufacture of defence items and offset policies are important inputs in purchase decisions.

10. **Visits to the Field formations:-** IFAs need to regularly visit field units/formations to help them to keep user's concerns in view while rendering financial advice, thus making them more effective IFAs. IFAs need to constantly ascertain organisational details, their structure, duties, role, areas for modernisation, prioritisation due to limited funds, users' current concerns and usage pattern, areas

for economising, pressing requirements, problems in areas of security, working conditions and other infrastructural problems. IFAs need to have a working knowledge of technical issues pertaining to items being procured. This knowledge can be useful while doing component-wise costing for determining reasonability of rates. A visit to the user's premises to gain first-hand knowledge of operation of items concerned would be helpful, and can be supplemented by inputs from technical journals and websites. IFAs can become a nodal point for generating data-base in regard to procurement factors like vendors, items and their prices. Market research by IFAs can be a systematic gathering, classifying and analysing of data considering all relevant factors that influence the procurement of the goods and services for the purpose of meeting present and future requirements in such a way that they give an optimal return[71].

FOCUS AREAS FOR IFAS OF THE FUTURE

To maximise gains, the requirements to successfully play the role of an IFA are changing. The career of a finance professional in government, more specifically in defence, could now include the following:

1. *Aiming to gather wider expanse of experience*, which could be in the roles that expose the officer to different functions in the organisation. It could be especially advantageous to pick up roles other than that of finance. A leaf can be taken out of railways in this respect. The ministry of railways offers its finance cadre professionals (IRAS officers) to take up operational roles such as Divisional Railway Managers and Additional Divisional Railway Managers. The finance professionals also take up roles such as heads of training establishments (Training academy at Vadodara). On similar lines, defence finance professionals could be posted to identified managerial positions which would expose them to the functional aspects of work, apart from finance. This would lead

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71 www.cdajabalpur.nic.in (Accessed December 20, 2019)

to a change in attitude too, as the finance professional faces constraints and difficulties in day to day working in his/her capacity as an executive functionary and becomes sensitised to them. As and when they take up assignments of a financial nature once again, they understand the working of an organisation through first-hand experience and are, therefore, more attuned to the proposals and issues placed before them.

2. *Creating a global perspective* by selective exposure in the international sphere. This experience would be of enormous use in understanding the complexities invariably associated with this sector. Many problems that we face today, may have been experienced by another country at some point of time in the past. An understanding and analysis of such issues can assist IFAs in arriving at the right decisions. Interaction with renowned finance professionals can give the right leads to build better skills and expand knowledge base.

3. *Leadership opportunities and team-building skills* are essential initiatives to transform the personnel and major programmes need to be planned. This would enhance communication skills that are so important while dealing with all the stakeholders. In recent times, trend has been for IFAs and executive authorities to interact in formal ways at periodic intervals. Such an institutionalisation of exchange of ideas is most welcome and must become a robust mechanism of cementing ties and fostering the sentiment that each sub-organisation is working towards the same goals.

4. *Emphasis on expertise in digital technology* will play an all-important role in dealing with complex issues. The IFA must pay particular attention to managing, analysing, and presenting data in a way that leads to the greatest utility for the organisation. Technology will play a key role in creating value in the finance function. The boom in digital technologies give a huge boost to leaders in the finance field towards contributing to improved decision-making. This data must be accurate and consistent to be effective.

5. *Training for the IFA environment and shedding biases* needs to a be priority at all levels of personnel in the finance organisation. IFAs in the lower echelons may have spent their careers performing audit

functions and need to be mentored specially to adapt to their new role as financial advisors. Continuous coaching and mentoring would be required to transform mindsets. This may perhaps be the most important element. The increase in expectations from the IFA translate to enhanced demands on the finance function as a whole. IFAs must get the right talent and must mentor them to enhance their performance. They need to spend time in planning for key roles in the organisation in order to attain the optimum balance of all the necessary skills in their team.

Conclusion

The global security environment is very uncertain, with threats emanating from areas such as terrorism, cybercrime and the changing nature of conflict. Our country can ill afford financial mismanagement in such times, especially in the area of defence. Financial management poses a challenge in defence and it falls upon the Financial Managers (IFAs) to rise up to this challenge. Notwithstanding that, "Financial management, when viewed in its entirety, is not just the responsibility of the finance managers. Much like the process of planning, financial management is also the collective responsibility of the entire top management of the organisation".[72] Therefore further evolution and enhancement in professionalism of the IFA in defence would take place as a part of the defence reform process. A paradigm change in our capability to integrate and to innovate, to surge ahead utilising the benefits of technology and to efficiently use all our resources is the need of the hour. This would lead to a quantum jump in defence preparedness and we would be able to meet the challenges of the future effectively.

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72 Amit Cowshish ,"Financial Management in Defence", in Vinod Misra (ed.) *Core Concerns in Indian Defence and the Imperatives for Reforms* ,Pentagon Press in association with Institute for Defence Studies and Analyses, 2015.

The institution of Financial Advisor in any organization is a salient pillar of good governance and accountability. In a government organization, Integrated Finance serves as the *sine qua non* for most efficacious utilization of available funds. The Ministry of Defence in particular, with its prodigious and multifarious expenditure, stands to gain enormously if its resources are harnessed in the most productive manner possible.

The system of Integrated Financial Advisor was established by the government in various ministries several years ago. The Ministry of Defence was also eventually covered by this scheme. The purpose was to expedite decision-making by delegating financial powers to the executive authorities. These powers were to be exercised in consultation with the Financial Advisors and the concept of authority with responsibility was underscored. Independent financial inputs would now be available to the executive authorities while exercising delegated financial powers.

In this Monograph, suggestions have been put forth to augment the existing system of Integrated Financial Advice for defence, by comparing it with similar institutions both within and outside the country. Their best practices have been distilled for optimum utilization by our own institutions, leading to a highly professional and progressive environment at par with global standards.

Sumati Kumar is an officer of the Indian Defence Accounts Service, 1994 batch. Till recently, she was posted as Senior Fellow at the Centre for Defence Economics and Industry at the Manohar Parrikar Institute for Defence Studies and Analyses, New Delhi. She is a post graduate in Political Science and International Relations from Sreemati Nathibai Damodar Thackersey Womens' University, Mumbai. She earned an M. Phil in Defence and Strategic Studies with distinction from the prestigious National Defence College, New Delhi. She has served in various capacities in the government, both on the finance and on the executive side. She has earlier been posted as Director Cabinet Secretariat, Registrar Ambedkar University, Delhi and Integrated Financial Advisor to Directors General of key defence organizations.

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मनोहर पर्रिकर रक्षा अध्ययन एवं विश्लेषण संस्थान

Manohar Parrikar Institute for Defence Studies and Analyses

No.1, Development Enclave, Rao Tula Ram Marg,
Delhi Cantt., New Delhi - 110 010
Tel.: (91-11) 2671-7983 Fax: (91-11) 2615 4191
E-mail: contactus@idsa.in Website: http://www.idsa.in